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SCOTTSDALE CITY COUNCIL

Sam Kathryn Campana, Mayor
Councilman Greg Bielli
Councilwoman Mary Manross
Councilman Robert Pettycrew
Councilman Donald Prior
Councilman Dennis Robbins
Councilman Richard Thomas

**INTERNAL CONTROLS RELATED TO CITY
CONTRACTS WITH THE SCOTTSDALE
CHAMBER OF COMMERCE**

The City Auditor's Office assessed the Chamber's internal controls related to contracts with the City, and concluded that they provide reasonable assurance that existing contract requirements are met. City contract requirements should be re-evaluated.

**Report No. 9650
April 1998**



April 9, 1998

To the Most Honorable Sam Kathryn Campana, Mayor
and the Members of the Scottsdale City Council

Transmitted herewith is the report of our evaluation of internal controls related to contracts which the City has with the Scottsdale Chamber of Commerce for economic development programs, *Internal Controls Related To City Contracts With The Scottsdale Chamber of Commerce*, Report No. 9650. This audit was a scheduled project approved by City Council. Janet Lowden was the auditor in charge.

As a result of our audit work, nothing came to our attention that caused us to believe that the Scottsdale Chamber of Commerce failed to comply with any material provision of the contracts. We concluded that Chamber of Commerce internal controls over program expenditures and administration are adequate to provide reasonable assurance that requirements in existing contracts are met. We also found that the funds provided for and the contracts governing these agreements need to be re-evaluated, and aligned with modern contracting practices to strengthen City controls. The Director, Economic Development, and the Chief Executive Officer, Scottsdale Chamber of Commerce, reviewed this report and submitted written responses which can be found in Appendix B.

If you need additional information or have any questions, please feel free to contact us at 994-7756.

Respectfully submitted,

A handwritten signature in cursive script, reading "Cheryl Barcala".

Cheryl Barcala, CIA, CPA, CFE, CGFM
Scottsdale City Auditor

**Internal Controls Related To City Contracts
With The Scottsdale Chamber Of Commerce
Report No. 9650**

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Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce Action Plan

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATION(S)
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X			X by FY 1998/99	Ensure that the CoC work plans and budgets are independently evaluated, and that elements which affect contract costs, such as overhead, staffing, and other fund sources, are negotiated and documented in the written agreements.
2	X			X by FY 1999/00	Ensure that the CoC contract language clarifies the relationship of the City economic development (business attraction and retention) contract to Scottsdale Partnership responsibilities, as well as clarifies any restrictions on public access to programs.
3	X			X by FY 1999/00	Ensure that the agreement between the City and CoC regarding the CoC building is documented, and that the use of tourism capital project funds is justified.
4	X		X by FY 1998/99		Ensure that the CoC contracts contain sufficient language regarding expenditure appropriateness, and include a contract requirement that CoC document policies and procedures controlling the appropriate use of City contract funds.
5	X			X	Ensure that a requirement that CoC conform its financial reports to generally accepted accounting principles and to accounting standards for not-for-profit organizations is incorporated into the contracts.
6	X		X by FY 1998/99		Ensure that City standard contract language regarding professional services subcontractors is incorporated into the contracts.
7	X			X	Ensure that the contract for business attraction and retention conforms to City requirements, including development of specifications and support for sole source contract award.

Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce

Action Plan

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATION(S)
	AGREE	DISAGREE	UNDERWAY	PLANNED	
8	X			X by FY 1998/99	Ensure that the C/T contract scope of work includes adequate measures of program results with which to verify service delivery.
9	X			X by 6/30/99	Ensure that the Contract Administrator complies with the Administrative Guideline for the function, except for approved variances, including the development and implementation of a documented contractor performance monitoring plan.
10	X			X	Ensure that the Contract Administrator documents the periodic verification of performance results and initiates corrective action on identified contractor performance noncompliance.
11	X			X by 12/31/98	Ensure that the process of determining the funding of tourism promotion services conforms to the City's tax and tourism Codes, including City development of a 5-year strategic marketing plan and documentation of Tourism Development Commission allocation and evaluation procedures.
12	X			X by 6/30/99	Develop written procedures for calculating promotion funds and subsequent distributions of funds, and document distributions. Documentation should be retained.

CHAPTER ONE

Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce
City Auditor Report No. 9650

Introduction

A long-term partnership exists between the Scottsdale Chamber of Commerce (CoC), a representative organization for private industry members, and the City of Scottsdale, for cooperative economic development programs. The formal partnership began in 1977 when CoC enhanced its tourism promotion program, using revenues from a tax on Scottsdale hotel rooms collected by the City. The success of the tourism promotion partnership led in the mid-1980s to another economic development undertaking, business attraction and retention. Specialized CoC and City staff were hired for complementary roles to attract and retain industry for Scottsdale. In 1989, the City and CoC once again enhanced tourism promotion after a citizen-approved bed tax increase.

The partnership is formalized through a series of contracts which delegate tourism promotion and related activities, as well as business attraction and retention, to CoC for execution. These contracts are renewed annually on a Fiscal Year (FY) basis. At the request of the CoC Executive Director, and with the approval of the Mayor and City Council, we evaluated the City contracts with CoC. The audit was an approved project on the City Auditor's FY 1995/96 audit plan. Our work focused on the contracts and assessed the adequacy of internal controls to:

- ensure that funds are spent in accordance with contract requirements;
- ensure that contractual administrative requirements are met; and
- measure performance.

We also assessed whether or not the contracts were administered in accordance with City guidelines. This project was initiated in September 1996.

Results In Brief

CoC internal controls over program expenditures and administration are adequate to provide reasonable assurance that requirements in existing contracts are met. CoC has provided professional services in tourism promotion and business attraction/retention in compliance with all of the major contractual requirements. Information provided during the audit by staff indicates that programs have accomplished the intent of CoC and City decision-makers who developed them. Occupancy rates for hotel rooms have increased and unemployment has decreased. The City has experienced a significant increase in the number of jobs and the

occupancy of commercial real estate due to the relocation of new businesses.

We found no significant issues with either CoC's performance or its adherence to contract terms. The limited areas of nonconformance which we identified related to administrative matters that were immaterial overall to the desired outcome of the arrangement. These areas already are being addressed by CoC and City staff.

In developing future contracts, City staff should reevaluate the arrangement's funding structure, and should align contract administration with modern City practices. The formal relationship is in its twentieth year. The CoC contracts have been administered by City staff as though they were intergovernmental agreements, and because of this, administration has not conformed either to the City Procurement Code or to Code provisions related to bed tax revenues. As well, the contracts and their administration have not been required to conform to other City guidance such as Administrative Guidelines. Our work does not support the view that the contracts with CoC are intergovernmental agreements.

If City Council determines that the economic development activities involved in tourism promotion, and business attraction and retention, should continue to be provided by the private sector, and that CoC should continue to be the provider, we recommend that City Code provisions governing tourism fund allocation should be changed to clarify that intent. Additionally, future contract provisions should change the focus of City oversight from monitoring expenditures to measuring results, and should provide incentive to CoC to operate programs at the optimum level.

The current contracts do not define allowable program costs. City contracts provide three-fourths of CoC total revenue, and without a defined cost allocation procedure, contract funds may supplant CoC funds for general operations. City bed tax revenues also fund services to CoC members who do not contribute funding on a par with Scottsdale tax-paying clients, but who nonetheless receive the same level of CoC support. Current contracts do not define criteria for matching funds.

The recommendations included in this report are structured to provide additional City insight into and control of funds provided to CoC in future contracts, and to facilitate monitoring of program results expected given the level of funds provided. During our audit, both City management involved in contract administration, and CoC management, stressed that the original intent of the business community and City Council was to

provide a set funding level in support of a unique economic development partnership with the Scottsdale business community represented by CoC.

Because the business community, via the bed tax, provided the majority of program funding, the partnership premise was that business community satisfaction with CoC services would be the indicator of successful City program results. For the convention/tourism (C/T) program, the intent was to provide increased funding for hospitality promotion as a consultant had recommended. In the case of the program for business attraction and retention, the intent was to provide at least the funding level recommended at the program's initiation in 1985.

In order to strengthen internal program controls, we recommend that the City Economic Development Director:

- Ensure that the CoC work plans and budgets are evaluated by staff independent of the programs, and that elements which affect contract costs, such as overhead, staffing, and other fund sources, are negotiated and documented in the written agreements.
- Ensure that the CoC contract language clarifies the relationship of the City economic development (business attraction and retention) contract to Scottsdale Partnership responsibilities, as well as clarifies any restrictions on public access to programs.
- Ensure that the CoC contracts contain sufficient language regarding expenditure appropriateness, and include a contract requirement that CoC document policies and procedures controlling the appropriate use of City contract funds.
- Ensure that the Contract Administrator complies with the Administrative Guideline for the function, except for approved variances, including the development and implementation of a documented contractor performance monitoring plan.
- Ensure that the process of determining the funding of tourism promotion services conforms to the City's tax and tourism Codes, including City development of a 5-year strategic marketing plan and documentation of Tourism Development Commission allocation and evaluation procedures.

These and other recommendations are discussed in Chapter Two. Objectives, scope, and method of our audit is discussed in Appendix A.

Background

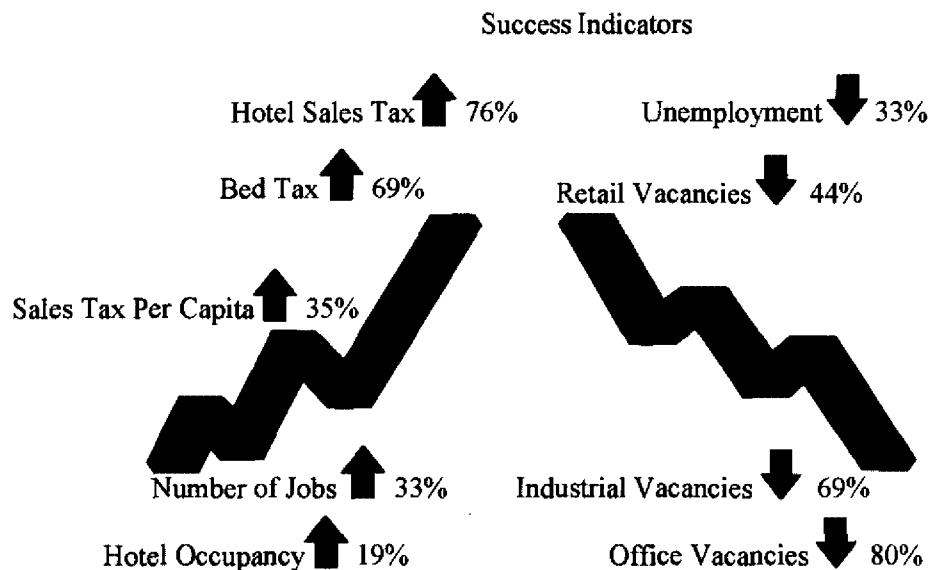
The City relies on its privilege and use tax (sales tax) as the major source of funding for operations. Tourism—hotels, restaurants, car rental agencies, and tour companies, among others—is a primary contributor to this revenue. Statistics published by the City's Economic Development Division show that 26 percent of the City's workforce is employed in tourism. In 1995, 6.4 million people, who spent an estimated \$1.77 billion, visited here. In addition to tourism, sales tax revenue is also affected by the overall economic vitality of the business community in Scottsdale. The number of businesses, number of employees, and square footage of retail space, as well as the income level of Scottsdale residents, impacts the sales tax revenue.

In 1977, in an effort to enhance and promote the tourism industry, the City enacted an additional sales tax, known as the bed tax, on hotel rooms. Subsequent to tax enactment, the City entered into an agreement with CoC, a private, not-for-profit, membership organization, to promote tourism. Both Scottsdale and Paradise Valley municipalities are tourism promotion clients, because CoC defines its visitor industry members as the "Scottsdale/Paradise Valley Market Area." In 1997, 54 hotels and resorts form the core of CoC's visitor industry membership. Of these, 38 are located within City limits, while 9 are located in the Town of Paradise Valley, 6 are in Phoenix, and 1 is in Carefree.

The tourism promotion program is a success. In FY 1995/96, the CoC C/T Division reported approximately \$65 million in local economic impact from hotel bookings, which was a 23 percent increase over the previous year. Estimated City sales tax revenue from visitor spending rose 13 percent from the prior year, to \$5.2 million. To achieve results, the CoC C/T Division has developed hotel room sales leads and created cooperative marketing programs such as sales trips, advertising, and familiarization tours for travel industry representatives. The Division has hired a marketing manager, contracted with a public relations firm, and staffed an 800 telephone line. Sales representatives have been contracted full time in the United Kingdom and Germany. By 1996, year-round occupancy had increased 10 percentage points in 7 years, to about 74 percent.

Because of the success of the relationship between the City and CoC for the delivery of promotional programs, in the mid-1980s, the City expanded this relationship to include other economic development-related activities—attraction and retention of industry. This relationship also has been successful. Key strategies have been accomplished, as reported in a study published in 1996, which concluded that the CoC attraction program

had brought into the City the types and quality of companies that were recommended. In retail real estate, vacancies dropped 4.8 percentage points between 1990 and 1995. Industrial vacancies dropped 18.1 percentage points during those years, and office vacancies shrank by 21.4 percentage points. In FY 1995/96, the CoC Economic Development Division reported that it assisted 10 companies in locating to Scottsdale. Taken together, the companies represented 1,400 new jobs in industries ranging from manufacturing to aeronautics. Firms occupied more than 183,000 square feet of facility space, and generated a total annual payroll of \$28 million. The graph below highlights some of the economic successes between 1990 and 1996 that the City and CoC have achieved through joint economic development programs.



SOURCE: City Economic Development Division

Developing The Annual Contracts

There are two contracts concerning economic development that govern the relationship between the City and CoC. The first is a contract for tourism promotion and the second is a contract for business attraction and retention. The funding for these contracts comes from separate sources and will be discussed later. Each contract's services are delivered by a specific CoC Division, each of which has objectives contained in a program of work which is developed annually, along with the related budget to fund activities. Committees and boards consisting of CoC

members, and CoC and City staff, as well as Council-appointed oversight boards, help to determine those objectives.

Development of annual work plans begins with revisiting the long-term strategic studies, prepared by expert consultants, which established the framework for both of the programs. Comparing results to date with long-term objectives, staff then evaluate the local climate and fine-tune the existing work plans. After evaluation, draft work plans are prepared and shared with the cognizant CoC committees. For example, C/T Marketing staff work with the Marketing Committee in reviewing and refining the work plan. Annual objectives are then fit within the confines of the estimated FY budgets. Drafts then flow upward through committees to the CoC Board of Directors, to become the City contract scopes of work. If approved, they are forwarded to the City for further review before being put on the City Council agenda as part of the contract documents. The graph below illustrates the flow of the contract scopes of work.



SOURCE: Audit analysis

Tourism Promotion Objectives Goals for tourism promotion program structure, marketing targets, and marketing strategy for the C/T contract were developed initially in a study jointly convened by CoC, hoteliers, and the City. The Campbell Dalton Hospitality Marketing Strategy, performed first in 1988 prior to the increase in the bed tax rate, was updated in 1993. Key tourism promotion program objectives remain that projects must:

- Meet the needs of the industry.
- Create room nights in Scottsdale lodging properties.
- Attract visitors during the off-peak period to balance seasons.
- Increase Scottsdale's visibility as a visitor destination.
- Attract new visitors.
- Meet other criteria as adopted by the Tourism Development Commission.

The current promotion program was intended to create a competitive visitor destination community in addition to selling it. Program goals were to substantially increase promotion funds; effectively manage the money dedicated to supporting the hospitality industry; install long-term funding for infrastructure investments that attract visitors; and increase visitor revenues. The key program performance measure is to increase the bed tax collected per hotel room. The C/T Division receives an incentive bonus if the annual bed tax collected per sleeping room increases compared to the previous year.

As a part of the tourism promotion program, the C/T Division also administers special events promotional funding. The special event program's purpose is to "provide the necessary resources to promote desired events to potential visitors to Scottsdale and create a year-round destination." Although CoC's role during FY 1995/96 was to distribute the allocated money, subsequent to the close of audit fieldwork, the Tourism Development Commission changed the event promotion process, and the CoC role.

Business Attraction and Retention Objectives

As was the case for the tourism promotion program, the strategy and objectives of the business attraction and retention program were outlined in a consultant's study. The 1984 study, the McManis report, became the charter for program structure and goals, and as a consequence, defined the scope of work for the City contract. In the mid-1980s, a group comprised of businessmen and City Council members responded to a slowdown in tourism which affected the vitality of the entire local economy by hiring the consultant, and determining that a more diverse industrial

mix would cushion the economy from changes in any one sector. Their strategy outlined four objectives:

- Encourage continued growth in hospitality, residential construction, retail, and business and professional services.
- Revitalize the downtown city area.
- Sell the city to new, selected target businesses.
- Enhance efforts aimed at encouraging existing city businesses to stay and to expand.

Goals of the business attraction and retention program have included increasing the market for services by a minimum of \$472 million, and attracting \$410 million in new capital investment. Another goal of the program remains to create 1,500 additional employment opportunities annually for city residents by meeting six objectives:

- Retain, enhance, and expand existing area businesses.
- Generate new business development with an emphasis on businesses with potential for enlarging the economy by serving markets beyond the City.
- Assist in the development and marketing of hospitality and recreation-related facilities, destination tourism attractions, and retail establishments.
- Increase awareness of the Scottsdale area among corporate decision makers at regional, national, and international levels.
- Identify and document the area's strengths and continuing development; and communicate these strengths in credible, creative, and effective ways.
- Strengthen the public/private partnerships necessary to maximize the return on our economic development investments.

**City and CoC Roles In Program
Creation And Delivery Are
Intertwined**

According to professional literature, partnerships between government and private industry are a prerequisite for successful economic development efforts. Tourism promotion and business attraction/retention

services are coordinated and delivered by City and CoC professional staff. City economic development staff consists of the Economic Development Director, the Tourism Development Coordinator, the Economic Development Specialist, and the Administrative Secretary. The City Tourism Development Coordinator is the current contract administrator for CoC contracts, although in the past other City staff have filled the position; the Coordinator also serves as the secretary to the Tourism Development Commission.

Over the years, the City economic development staff and the CoC staff have developed complementary roles. The respective roles of the City and CoC were defined formally in a City Council Resolution in 1990, which stated that "Most important, this policy reaffirms the necessity of the various public and private elements of the development process working together in a coordinated fashion..." Roles defined by City Council are shown below.

CoC and City Staff Roles

City	CoC
Recruit major, high quality retailers.	Recruit business and professional services, and administrative office centers. Retain, enhance, and expand existing area businesses.
Measurably benefit from Scottsdale's participation in the Greater Phoenix Economic Council.	Measurably benefit from Scottsdale's participation in the Greater Phoenix Economic Council.
Facilitate development of new destination attractions and events.	Promotional program targeting Scottsdale as a leisure and convention destination, especially to new market segments.

SOURCE: City Council Resolution, 1990

Industry Groups Have Key Roles In Program Planning

Industry groups are involved in City/CoC tourism promotion and business attraction programs. Involvement is channeled through City commissions, and through CoC committees, boards, and associated organizations. While City Council sets the overall economic development policy for the community, the CoC Board of Directors provides policy oversight of the entire CoC business plan, which includes contracted programs. Exhibit I illustrates the relationships among organizations and staff which plan and deliver these economic development programs. Respective roles are discussed below.

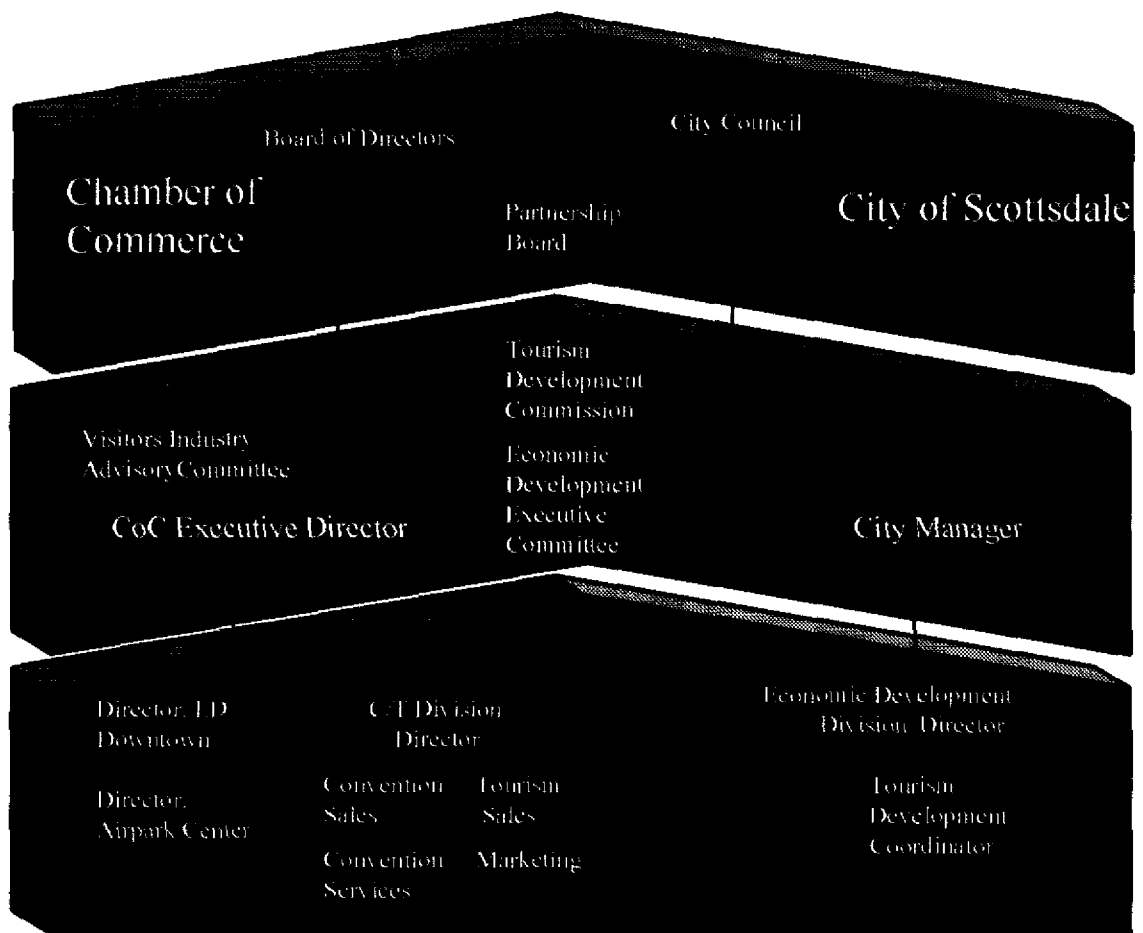
Tourism Development Commission's Role. The Scottsdale Tourism Development Commission (formerly the Hospitality Commission) is a citizen group, comprised of tourism industry representatives, convened to advise City Council on the expenditure of tourism funds. The Commission, formed in 1989, is comprised of seven members who "...act as an advisory board to the city council on matters concerning the expenditure of revenues from the transaction privilege tax on transient lodging (bed tax) designated for tourism development." The Commission also provides City Council with guidance on broad issues related to the future of the hospitality industry. Membership is to consist of a minimum of four Scottsdale hoteliers, as well as one CoC member, and the balance from other elements of the tourism industry, such as restaurants and desert jeep tour companies. The Commission adopts rules and procedures to govern itself and to guide its decision-making about projects to fund which are not otherwise provided for by statute, ordinance, or resolution. These are contained in its Bylaws and Procedural Guidelines.

Scottsdale Partnership's Role. Scottsdale Partnership, affiliated with and supported by CoC, is a not-for-profit group chartered in 1987 to raise money for the CoC business attraction and retention program. Its charter states that the Partnership is "...expressly limited to receiving contributions for the purpose of promoting the Scottsdale Chamber of Commerce's economic development program within the City of Scottsdale." The Partnership has a role both in program planning and in program execution. Scottsdale's Mayor is on the Partnership Board of Directors.

While the Partnership's initial focus was to raise funds from the private sector to match City funds, by FY 1995/96, the role had evolved to acting as the "umbrella" organization under which both CoC and City economic development took place. The City contract program of work for FY 1995/96 states:

EXHIBIT I

Partners In Economic Development



SOURCE: Audit analysis

The Scottsdale Partnership is the public/private alliance of the City, the Chamber, and the Business community which promotes the retention and expansion of existing businesses and the attraction of new business and investment to the city. The City and the business community, through The Partnership, provide the financial resources for the programs of the Economic Development Division of the Chamber. Policy direction of these activities is provided by The Partnership and Chamber Boards and is coordinated with the City through a quarterly meeting of the Economic Development Executive Committee.

The Partnership Board is comprised of not less than 8 nor more than 35 CoC members who have contributed funds to the Partnership. These individuals also constitute the members of the corporation. CoC furnishes staff to the Partnership via a management consultant agreement. Under the agreement, CoC provides full or part-time staff to implement programs and to assist in the management of Partnership activities.

Economic Development Executive Committee's Role. The CoC Economic Development Executive Committee (EDEC) is responsible for providing policy guidance and direction to City management and to CoC relative to economic development programs. EDEC is required by the business attraction and retention contract, and is comprised of six members representing City Council, City Manager, and CoC/Partnership leadership.

CoC Committees' Role. CoC standing committees, comprised of CoC members interested in particular issues, have roles in setting policy, monitoring results, approving annual budgets and programs, and participating in activities. Committees provide advice and direction to CoC staff working in the respective program areas. One standing committee, the 30-member Visitors Industry Advisory Committee, has an additional responsibility because City Code assigns to it the role of nominating individuals to be appointed to the City's Tourism Development Commission. For all other City commissions, nominations traditionally are submitted by the City Clerk from collected applications.

The Visitors Industry Advisory Committee's mission is to "continue to develop marketing and sales strategies that both enhance the flavor and character of our location, and to communicate that which positions Scottsdale as the visitor's destination of choice." Objectives of the group include providing feedback and recommending actions to the Tourism Development Commission, and to Scottsdale and Paradise Valley Councils.

Funding For CoC Contracts

As mentioned previously, funding for the City contracts with CoC comes from separate sources: bed tax revenues restricted for tourism and City general fund. Funding for the tourism promotion contract comes from the tourism funds restricted by City Code to be used only for hospitality development, including destination and event promotion. When the promotion program first started, the bed tax was 2 percent. One-half of the revenue went to CoC, and one-half stayed within the City. In 1988, the citizens approved increasing this tax to 3 percent. Tourism funds which are designated from the bed tax revenue are required by City Code to be allocated among four activities:

- Convention and tourism promotion.
- Event promotion.
- Visitor research.
- Capital projects - development of visitor-related public projects.

In FY 1995/96, approximately \$5.7 million was generated from the bed tax. Of this, approximately \$1.9 million was allocated to the City's general fund, and \$2.6 million was allocated to hospitality promotion projects. In FY 1995/96, hospitality promotion was comprised of the following allocations:

FY 1995/96 Hospitality Promotion Funds

CoC C/T contract:	
Base contract	\$1,803,879
Bonus for FY 1994/95	101,005
Event promotion	<u>220,500</u>
CoC subtotal	2,125,384
Event promotion	\$418,000
Marketing research	<u>60,000</u>
Total	\$2,603,384

SOURCE: City Economic Development

The balance of the bed tax revenue went into the capital project funds for visitor-related projects such as museums, the Frank Lloyd Wright Visitor Center, or the Waterfront Project.

The chart on the next page shows a history of bed tax revenues, along with the amounts restricted to hospitality development, and then invested in the CoC promotion contract, for the years following the implementation of the enhanced promotion program. As the chart shows, traditionally most of the promotion funds flow into the CoC contract.

Destination Promotion Funds

Fiscal Year	Bed Tax Revenue	Destination Promotion note 1	CoC Contract	
1989/90	\$3,220,066	\$1,824,065	\$1,824,065	note 2
1990/91	\$3,355,669	\$1,520,000	\$1,520,000	
1991/92	\$3,419,920	\$1,675,000	\$1,675,000	
1992/93	\$3,856,181	\$1,784,000	\$1,784,000	
1993/94	\$4,465,415	\$1,843,400	\$1,843,400	
1994/95	\$5,047,986	\$1,915,300	\$1,915,300	
1995/96	\$5,702,290	\$2,125,384	\$2,125,384	

Note 1: Funds include destination promotion, incentive bonus, and event promotion. Some event promotion and research funds are administered directly by City ED staff.

Note 2: Funds include an undocumented additional amount from the second half, FY 1988/89, as required by the FY 1989/90 contract.

SOURCE: City Financial Services and CoC contracts

By contrast to the tourism promotion program, the City's contract with CoC for business attraction and retention is funded from the general fund. The initial funding level was apparently established by a consultant recommendation at \$300,000, in 1985. City funding history for the contract is shown below.

Business Attraction And Retention Funds

Fiscal Year	City General Funds for CoC Contract
1985/86 through 89/90	\$300,000
1990/91	\$350,000
1991/92	\$364,000
1992/93	\$364,000
1993/94	\$364,000
1994/95	\$364,000
1995/96	\$400,000

Note: Contract price has increased due to increases in the Greater Phoenix Economic Council fees.

SOURCE: City contracts and Economic Development Division documents

**CoC Organization And Budget
Related To City Contracts**

CoC staff who work on the City contracts are organized into two divisions, the C/T Division and the Economic Development Division. For tourism promotion, the C/T Division employs a staff of 14. Staff, led by a Director, consists of four divisions, each headed by managers: Convention Sales, Tourism Sales, Marketing, and Convention Services. Convention sales focuses on selling area hotel rooms to association and corporate conventions. Tourism sales focuses on selling area hotel rooms to domestic and international group tours, as well as attracting individual visitors. Marketing works to position Scottsdale as a premier destination resort through advertising and public relations. Convention services offers after-sale support services to meeting planners, as well as sells area attractions such as restaurants or tours.

Promotion Budget

While the City contract is not the only source of revenue for CoC tourism promotion, it is the major one. In FY 1995/96, the contract provided four-fifths of the total funds for C/T Division operations and associated services. Included in the funds is the Division's incentive bonus and \$112,600 used to pay for the CoC building. In FY 1995/96, the Division also administered \$280,000 in City special events promotion funds and \$50,000 for the downtown shuttle. The City contracted, through CoC, with a company which runs trolley shuttles from resorts and hotels to the downtown and other shopping districts. The shuttle service is paid for from the City Transportation Department general fund.

The Town of Paradise Valley contracts separately for promotion, for \$400,000 annually, and these funds are incorporated into the C/T Division budget rather than segregated and separately programmed. Revenue also is realized from sales of CoC products or services, as well as from the State Tourism Office. From the local visitors industry, the Division receives in-kind support, such as airline tickets or hotel rooms, but this is not tracked and reported in financial reports. In FY 1995/96, in-kind support was valued at an estimated \$305,000. Total FY 1995/96 cash funding for the C/T Division is shown on the next page.

CoC Convention and Tourism Promotion FY 1995/96 Funding

FY 1995/96	C/T Revenues	Support Ratio
City contract	\$2,024,379	
City event promotion funds	\$283,848	
City funds for capital project	\$112,600	
City incentive bonus	\$101,005	
City shuttle service funds	\$50,000	
City research funds	\$0	
City subtotal	\$2,571,832	85%
Paradise Valley bed tax funds	\$400,000	
Income from projects and programs	\$19,193	
Interest earned	3,101	
Arizona Office of Tourism	\$16,350	
Other subtotal	\$438,644	15%
Total	\$3,010,476	

SOURCE: CoC C/T Division Annual Financial Audit Report

***Staff And Budget For Business
Attraction And Retention***

CoC's Economic Development Division employs a staff of five—the Economic Development Director and his administrative assistant, who focus on attracting new industry, and the Manager, Airpark Center, the Coordinator, Airpark Center, and the Manager, Investor Relations—who focus on retaining and enhancing existing businesses. In addition to the City contract, funds also are contributed by Scottsdale Partnership. City contract funds in FY 1995/96 for economic development were \$400,000. Cash contributed by the Partnership was budgeted for about \$300,000. Partnership members also contributed an estimated \$68,000 to the program in in-kind services, such as printed materials or meals. In-kind support is tracked and reported in the Economic Development Division financial reports.

The chart on the next page shows the funding in FY 1995/96 for the business attraction and retention program. As the chart shows, the City contract provided three-fifths of the total program funding, and almost two-thirds of the cash support.

CoC Business Attraction and Retention FY 1995/96 Funding

FY 1995/96	E/D Revenues	Support Ratio
City contract	\$400,000	58%
Scottsdale Partnership	\$218,700	note 1
Scottsdale Partnership in-kind participation	\$ 67,800	
Partnership subtotal	\$286,500	
		41%
Seminars	\$ 8,600	
Interest	\$ 600	
Subtotal	\$ 9,200	1%
Total	\$695,700	

Note 1: Information was not provided about actual Scottsdale Partnership revenues; this figure represents amount actually expended.

SOURCE: CoC general ledgers

CHAPTER TWO

Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce
City Auditor Report No. 9650

The Contractual Arrangements Between The City And CoC Need To Be Strengthened

The contracts discussed in this report are long-standing, annual agreements between the City and CoC. Both City and CoC staff believe that this is a natural alliance because CoC members have a direct interest in the outcome of the programs, and according to staff, this arrangement has worked well. The contract for the C/T program dates back to 1977, when the bed tax was first enacted, while the contract for economic development (business attraction/retention services) dates back to 1985.

During our audit, nothing came to our attention to suggest that issues discussed in this Chapter had a material effect on program results. In fact, discussions with City and CoC staff indicated that the programs are achieving the desired outcomes. Results, as discussed in Chapter One, indicate that the City is benefiting from the programs in place. Bringing future CoC contracts up-to-date with City standards will strengthen internal program controls, and should enhance program efficiency. The discussion in this Chapter is focused on that outcome.

Issues and recommendations discussed in this Chapter were developed after evaluating the contracts to determine whether or not adequate controls over the expenditure of funds were in place, and to determine whether or not adequate controls were in place to achieve the desired objectives. In addition, because the C/T contract is funded with restricted money (bed tax revenues restricted for tourism programs), we evaluated controls over allocation of those funds. As a result of our work, we found that steps need to be taken to strengthen the internal controls over the programs. These include:

- Program funding and proposed budgets should be evaluated by staff independent of the programs, and contract language revised to strengthen control over expenditures.
- Scopes of work should be developed that can be actively monitored and evaluated.
- City monitoring of the contracts should be enhanced.
- The processes used to allocate tourism funds should be reassessed.

According to City staff, the enhanced program controls suggested by this audit were not implemented in the past for three basic reasons. First, the arrangement historically has worked well and, because of this, there has never been a requirement to consider whether the contracts should be changed. Second, the City has always considered the relationship with

CoC to be more of an intergovernmental-type of relationship, not a contractual relationship for the purchase of services. Last, in the case of the allocation of tourism funds, the Tourism Development Coordinator (who also is the contract administrator and serves as the secretary to the Tourism Development Commission) has taken the stance that the Commission is not chartered to change the allocation of available funds to the different types of programs required in the Code.

Future contract administration should incorporate stronger internal controls. Just as the City and CoC have matured during the last 20 years, so should the contractual arrangements for these programs. Without an objective process to evaluate the contracts' funding and budgets, expenditures, and desired outcomes, the City opens itself to criticism regarding its fiduciary duty for public money. Without adequate controls, the City also limits assurance that the contracts are accomplishing all of the goals that can be expected of them given the level of funding that is provided. These issues will be discussed in this Chapter.

The City Needs To Independently Review Contract Budgets And Revise The Contracts To Strengthen Controls Over Expenditures

The City acts in a fiduciary role when dealing with City revenues and expenditures. As such, it has a responsibility to ensure that expenditures are necessary and appropriate. To accomplish this, City Codes and guidelines are available that aid staff in determining whether an expenditure is appropriate. If the expenditure is made through a contractual arrangement with an outside vendor, staff are trained to evaluate the process and to develop contracts that protect the City's interest. If the expenditure is for the purchase of goods or services on a single need basis, staff are trained to evaluate the need for the item. Staff also receive training that expenses are to be related to a business purpose.

If the purchase is made through a contract, the City historically has used controls such as contract language requiring the right to audit expenses incurred by the contractor, and requiring the contractor to submit audited financial statements. In order for these provisions to be effective, the contract must contain all of the language needed to enable the provision. For example, if the City wants to be able to audit contractor expenditures, and to recover inappropriate expenditures, then the contract language not only must document this right, but also provide a guide to both City and contractor staff about what kinds of expenditures are appropriate. The guide could address, for example, staff qualifications, specifications regarding materials to be used, or the amount of overhead charged. If the City wants financial reports prepared to its standards, then the provision

must state that the contractor must submit unqualified financial statements, prepared to generally accepted accounting principals (GAAP).

With the CoC contracts, the City's contract administrator develops the "boilerplate" contract language. CoC staff develop the work plan, which is incorporated into the contract as the scope of work, and the budget. Last, the CoC Board of Directors approves the work plans and budgets, which are incorporated into the contracts as the fund control mechanism. For the business attraction and retention contract, policy direction is given by the EDEC, consisting of representatives of the City, CoC, and Scottsdale Partnership. With the C/T contract, the development process is similar except that the CoC Visitor Industry Advisory Committee and the Tourism Development Commission provide the policy direction.

During our audit, we evaluated the process used to develop the work plans and budgets and to monitor expenses, both within the City and internally at CoC. We also evaluated the contract language used to control the expenditure of funds. We also evaluated the terms and conditions contained in CoC subcontracts for their effect on contract expenditures.

For past CoC contracts, normal processes such as public bidding and independent review of the qualifications, specifications, and proposed contract amount did not occur. The process used to develop the contracts focused more on consensus related to the CoC work plan than on describing a contract deliverable, as it provided for input from CoC staff, committees, and the Board of Directors which lent an overall industry perspective to the program. While we found that CoC internal controls are adequate to safeguard contract funds, we identified City internal controls which should be strengthened in the future:

- No City representative, who is independent of the program, has been required to review budgets to challenge costs, and neither the plans, the budgets, or the expenditure reports, have been required to provide the level of detail needed for this stringent review.
- The business attraction and retention contract has not been required to provide guidance regarding the distinction between City and Scottsdale Partnership responsibilities for funding the program.
- The contract administrator has not been required to document the agreement between CoC and the City for the payments for the CoC building.

- Language in past contracts intended to serve as a control over expenditures and to facilitate review, is not sufficient to provide CoC staff, their external auditor, or City staff with guidance to ensure that charges against City funds would be appropriate.
- Past contracts have not required CoC to document policies and procedures regarding expenditures which could be used to train staff or to evaluate operations.
- CoC subcontracts do not adequately safeguard the City.

As a result, while CoC has a plan and budget review process, and internal controls in place to safeguard contract funds, these are not adequate to ensure that the City is fulfilling its obligation regarding review of expenditures for necessity or appropriateness.

**CoC Internal Controls Are
Adequate To Safeguard
Contract Funds**

CoC internal controls over funds are reasonably adequate to provide assurance that funds are safeguarded. Program funds are kept separate from one another and from other CoC funds. We verified that there are controls over the use of funds, and determined that expenses appeared to meet the budget description. We verified that staff use charts of accounts to classify expenditures for management and reporting purposes. Account transactions are summarized in monthly reports that CoC managers receive to review and verify accuracy. We reviewed documentation for FY 1995/96 expenditures, and found that expenditures are filed with explanatory material, an essential practice.

**The City Should Independently
Review Contract Budgets**

In order to ensure that the City enters into good contracts, standard requirements have been formulated that should be used to develop them. These requirements, spelled out in the City Procurement Code and other guidelines, require that staff evaluate the amount of money provided to a contractor in comparison to what will be produced. Often this evaluation occurs through the competitive process, but for contracts which for one reason or another are not competed, special steps to protect the City must be taken. The Insert on the next page sets out requirements for sole source purchases.

Purchasing Code Requirements For Sole Source Contracts

- SOLE SOURCE shall be avoided, except when no reasonable alternative sources exist.
- Shall not be used unless there is clear and convincing evidence that there is only one source.
- Department shall provide written evidence and report of research to support request for sole source.
- Purchasing director determines in writing for the contract file that there is only one source for the required service.
- Director may require the submission of cost or pricing data.
- Contract shall be negotiated.

SOURCE: City Procurement Code

If the contract is awarded as a sole source, additional alternatives protect the City, such as evaluating what the contractor says will be incurred to provide the service compared to what it would cost to provide the service in-house. Items that should be considered when undertaking this analysis include comparison of prior year budget to actual expenses. The methodology and the amount of administrative overhead charged to the programs should also be considered. The method for allocating these types of expenses should be detailed. The Insert below shows some of the cost elements which should be considered.

Factors To Consider In Alternate Service Delivery

- Human resources costs
 - pay, fringe benefits, overtime, staffing plan
- Materials and supply costs
- Specific costs of performance
 - depreciation, rent, maintenance, travel, training
- City contract administration operating expense

SOURCE: City Administrative Guideline on Alternate Service Delivery

We found that, while the process used to develop contract work plans and budgets provides for input from CoC staff, committees, and the Board of Directors, it does not provide for analysis of the program or proposed budget by City staff independent of the program. Neither contract award

was required to comply with Code requirements for sole source contracts, and no evidence existed that City staff had analyzed alternative costs during development of either contract.

As a professional services contract, the business attraction and retention contract should follow the normal City contract award process. By contrast, a basis exists for the C/T contract to follow a separate course, because funding is awarded based on a recommendation from the *Tourism Development Commission*, as outlined in the Code hospitality promotion provisions. The Commission process for the C/T contract should provide evaluation of services and budget which is equal to the normal City contracting procedures, but it does not. Because of this, until the process is strengthened by the Tourism Development Commission, we recommend that the City follow the steps outlined in the Code and other guidelines for both contracts.

Steps that should be followed when future contract budgets are reviewed include:

- Comparing the prior year budget to the actual expenses.
- Evaluating the amount of overhead charged to the contracts.
- Defining minimum levels of staffing and compensation, along with staff qualifications.
- Considering other sources of funds which could be used.

***Comparing Prior Year Budgets
To Actual Expenses***

Good business techniques suggest that prior year budget requests and actual expenditures need to be reviewed objectively, for example, by staff independent of the program, when a current year budget request is evaluated prior to approval. This analysis provides insight into what types of expenditures were made the prior year, and allows the reviewer to ask questions regarding differences between budgeted and actual expenses. It also allows insight into how well budgeted items were completed for the current year budget.

An independent budget review has not been required for either of the CoC contracts. The Insert on the next page shows the FY 1995/96 budget to actual comparisons for both City contracts, including the Partnership participation.

FY 1995/96 CoC Budget and Actual Expenses

	C/T		E/D		Partnership	
	Budget	Actual	Budget	Actual	Budget	Actual
Personnel Salaries	\$ 707,775	\$ 697,453	\$ 151,525	\$ 150,981	\$ 161,125	\$ 133,005
Allocated Salaries	\$ 141,000	\$ 138,880	\$ 89,520	\$ 86,558	\$ 20,150	\$ 22,082
Operating Expenses	\$ 200,774	\$ 225,505	\$ 31,732	\$ 21,705	\$ 30,100	\$ 15,920
Operational	\$ 1,758,286	\$ 1,764,383	\$ 100,573	\$ 106,001	\$ 73,546	\$ 19,027
Shared Operating Expenses	\$ 138,485	\$ 135,062	\$ 42,150	\$ 40,541	\$ 22,450	\$ 28,678
Total	\$2,946,320	\$2,961,282	\$415,500	\$405,786	\$307,371	\$218,713

Note: City and other revenue is included in the amounts. The actual expenditures do not include depreciation booked in operating expenses, and may not reflect expenses incurred but not yet paid, as CoC keeps its books on a modified cash basis.

SOURCE: CoC contracts and general ledgers

Controlling Fund Transfers

Existing contracts incorporate control over fund transfers once budgets have been approved. The contracts require CoC Board of Director approval and documentation if funds are transferred between activities listed on the budget. Additionally, documentation of such approval is to be provided to the City. According to the Contract Administrator, the City does not receive the required documentation of Board approval.

During our audit, we noted that funds apparently were transferred between activities for the business attraction and retention contract. For example, we found that in FY 1995/96, City funds were reprogrammed to pay for the second phase of a consultant study of the results of the attraction program. This transfer occurred even though an amendment to the prior year's contract emphasized that the City would pay only for the first study phase, a cost of \$10,500. The effect of this was that City funds paid an additional \$7,500, representing one-half the cost of the second phase, even though no City funds were allocated in the adopted budget. While the City expected CoC and the Partnership to pay the balance of any additional studies, the Partnership did not. The Partnership budget for FY 1995/96 included \$25,000 for "strategic planning study," but \$9,800 was spent.

***Evaluating The Amount Of
Overhead Charged To The
Contracts***

Overhead is expense that cannot be directly attributed to a particular product or service. If a business provides more than one service, expenses such as office utilities, administrative staff, and miscellaneous supplies, cannot be directly traced to a specific service. Common business techniques suggest several methods for allocating the cost of overhead to the different services as a means of determining total cost. Generally, accepted methods for both salary and operating expense overhead aim to allocate the expense as close to the service as possible. With salaries, it is recommended that employees track the time spent on projects in order to allocate the time. Salaries, taxes, and benefits are then allocated using the percent of time. Percent of time also could be used to allocate shared operating expenses. Documentation related to both types of overhead should be maintained.

Contracts which the City has with the federal government, for example, have restrictions on overhead, including: caps on the amount of overhead that can be passed on to the program; requirements that the City submit the method for determining the overhead for prior approval in a cost allocation plan; and restrictions on certain administrative expenses.

The City should negotiate overhead charges related to future CoC contracts because they represent an otherwise uncontrollable cost that affects the funding available for program delivery. Overhead allocation methods and allowed expenses should be evaluated and agreed upon during the budget review before contract approval. In a thorough budget analysis, charges to all programs should be assessed to ensure that programs are treated equally by the overhead allocation. A review of overhead also should consider whether the allocation method used is appropriate for all expense types. Documentation regarding actual CoC staff time should be required to validate cost allocations.

CoC operates other programs in addition to the two programs which the City funds. Allocation policy for costs reflected in charges to past contracts was set by the CoC Board of Directors, who also approve the CoC general budget, the C/T Division budget, and the Economic Development Division budget. Administrative salaries are allocated among the different programs based on an estimate of time staff spend on the programs. Then, CoC uses a simple method to allocate all types of shared operating expenses. The direct and allocated salaries for each program are combined, and a percent of the total is determined for each program. The cost of items shown in the Insert on the next page are then allocated based on the percent.

FY 1995/96 Overhead Items








Executive Director Auto Lease	Executive Director Auto Expenses	Staff Auto Expenses/Mileage
Staff Relations/Recruiting	Print Shop Equipment Maintenance	Print Shop Supplies
Print Shop Lease	Mailroom Equipment Lease	Office Supplies
Copier Equipment Maintenance	Principal and Interest on Telephone	Computer System Supplies
Desktop Publishing/Graphics	Staff Training/Education	Insurance
Building Maintenance	Utilities/Telephone	Loss on Abandonment
Parking Assessment	Interest Expense/Depreciation	Property Taxes
Personal Property Taxes	Newsletter	Beverage Service
Board Workshop/Retreat	Board Fund	

SOURCE: Scottsdale Chamber of Commerce

As a result of the allocation method used in past contracts, overhead was charged on the basis of total salaries, but the allocation may not accurately reflect how the expenditure relates to the program. Salary and commission structures may vary among programs due to the labor market, but particular staff, while better paid, do not "consume" more operating expense. In addition, the City does not have an accurate picture of the amount of program funds supplied for direct employees (those who spend 100 percent of their time providing the service outlined in the program), or an accurate record of the total cost of CoC staff allocated to the program. In FY 1995/96, the two City contracts funded more than 35 percent of CoC administrative salaries, \$255,500 of the total \$633,848. The Chart below shows how salaries are allocated to City contracts.

FY 1995/96 Salary Costs

A portion of general fund salaries is added to each fund

	<u>C/T Contract</u>	<u>ED Contract</u>	<u>Partnership</u>	<u>CoC</u>
				
	\$138,900	\$86,600	\$22,100	
	↓	↓	↓	
				
Salaries	\$532,886	\$106,720	\$107,379	\$386,248
Benefits	164,600	44,300	25,600	75,700
Total	\$836,300	\$237,500	\$155,100	\$462,000

Salary totals are used to allocate shared operating expenses.

Source: CoC FY 1995/96 general ledgers and audit analysis

The City business attraction and retention contract in FY 1995/96 absorbed almost a third more of the CoC overhead than the Partnership fund did. Charges of \$28,700 were allocated to the Partnership compared to \$40,500 to the City, even though the budgets for these two programs are supposed to be equal. The allocation of salaries affects the allocation of shared operating expense, and City funds receive a higher allocation of administrative staff than Partnership funds which are provided for the same activity. This could potentially affect the calculation of funds that would be available to be returned to the City or reprogrammed for the next year.

Also, because the combined City contracts have the highest percent of direct and allocated salaries, the City provides over one-half of the funding for CoC shared operating expense. This represents a total of \$175,600 out of \$310,000. The Insert below shows the allocation of shared operating expense.

Shared Operating Expenses During FY 1995/96

	Operating Expense	Share %
Total To Be Allocated	\$309,904	100%
Overhead Allocated To:		
Tourism Promotion	\$135,062	
Business Attraction	<u>\$ 40,541</u>	
City subtotal	\$175,603	57%
Scottsdale Partnership	<u>\$ 28,678</u>	9%
Total	<u>\$204,281</u>	

SOURCE: CoC FY 1995/96 general ledger and financial reports

Professional guidance suggests that the shared operating expenses ought to include workspace costs. CoC programs such as membership services have not incurred a charge for the cost of the CoC building because City tourism funds pay for the building mortgage and interest. City contracts have not incurred a charge for the Airpark Center leased in December 1995 at a cost of about \$19,000 annually. According to the CoC Executive Director, the general operations fund pays for the Airpark Center. All of the programs share in the cost of workspace utilities, other building maintenance expenses, and the print shop workspace, through the pool of shared operating expenses.

Additionally, professional guidance suggests that it would be appropriate to allocate the cost of payroll taxes or employee benefits using the same method as for the salaries. For CoC, the method would be by an estimate of administrative staff time spent. During our audit, we found that CoC does not allocate taxes and benefits for administrative staff in the same way as it allocates their salaries. Instead, taxes and benefits for both administrative and direct program staff are combined into one account, and portions of costs are allocated against the City contracts. We did not verify the allocation method used for taxes and insurance, but did note that charges for allocated employees were listed in the benefits expenditures with apparent inconsistency.

***Defining Minimum Levels Of
Staffing And Compensation,
Along With Staff Qualifications***

Analysis of the contract budgets for future contracts should also consider how many direct employees are going to be provided and what the qualifications of those employees should be. CoC annually submits a budget and work plan, but past contracts have not required that they include information regarding individual staff compensation and minimum required position qualifications. As a result, the City has not received sufficient information to judge the appropriateness of the amount budgeted for salaries. In order to properly analyze requests for funding, information should be provided regarding appropriate staffing for the programs or what the salary ranges for the employees should be.

As previously discussed, the overhead allocation method CoC used overstated the direct employee cost and understated the cost of allocated employees, making it difficult to compare contractor costs to alternatives such as City in-house service delivery. For example, more than half the \$400,000 business attraction and retention contract funds were used for "employee expense" for two direct program employees. In FY 1995/96, the program was charged more than \$241,000 (direct salaries, allocated salaries, benefits and taxes). We could not determine the total direct compensation cost for the two program employees (the Director, Economic Development and his administrative assistant) because CoC combines the charges for taxes and benefits of the allocated employees with the charges for the direct employees.

Documentation about staffing also is important in order for the City to assess during an audit whether the appropriate expenses were charged to the program. Without documentation regarding contracted staffing, the City cannot evaluate whether it was appropriate to charge certain staff to the program or whether the staff were qualified.

Additionally, future contracts should assure that the positions required for program delivery will be filled during the year. This is important both to ensure program delivery and spending of funds as planned. For example, while the C/T contract requires that, if the City identifies the situation, CoC has to return funds that were spent for unbudgeted activities, it does not require that any funds that were unspent have to be returned. Also, in review of the program delivery for the business attraction and retention program, we found that one position to be filled from Partnership funds was not filled the majority of the FY 1995/96 program year. As a result, activities that were to be carried out by that position did not get done.

***Considering Other Sources Of
Funds Which Could Be Used***

According to both City and CoC staff, there are two major benefits from the arrangement with CoC for program delivery. The first is the ability of CoC to partner with the business community for additional funds needed to carry out the programs. The second comes from the ability to jointly market the Scottsdale/Paradise Valley area. The level of private sector participation in the programs contracted by the City is an important indicator of industry confidence and support. Increasing the private sector stake in the program's success is recommended by economic development professional literature.

In federal programs where matching funds are required, specific conditions apply to the match. For example, the amount of matching funds required, the nature of the contribution, and timing are specified. If in-kind support is to be accepted as a part of the match, support has to be valued according to documented criteria, and has to be evidenced to the same level as are other charges to the program.

In order to accurately evaluate this aspect of the CoC programs, future contracts should require CoC to track funds raised using a documented valuation method that the City has agreed to. Fund-raising can result in either cash or in-kind goods or services. A significant portion of CoC fund-raising results in in-kind support. Currently, CoC is not required to document the method for recording the value of Partnership in-kind participation in the business attraction and retention program, and the C/T program does not report in-kind support at all. On the Partnership records, in-kind participation is recorded at the value placed on it by the contributing organization. This method does not consider whether the value reflects the appropriate market value of the goods or services donated. For example, hotel rooms should not be valued at full rack rate for room nights used during the low season.

How private sector contributions should be administered should also be clarified in future contracts. Under the current contracts, fund raising is approached differently in the two programs. For example, the business attraction and retention contract includes a budget for a matching program to be funded from Partnership funds, but Partnership funds are administered separately in a discrete CoC account. In the C/T contract, program funds received from other sources such as the Town of Paradise Valley are budgeted and administered along with City funds, not directed to separate programs and tracked in separate accounts. Each of these methods has different concerns.

Assessing Business Attraction And Retention Contract Funds. Internal controls over business attraction and retention program funds in past contracts, while having the potential to ensure that City funds are spent only on City-program-related activities, are not structured well enough to achieve that objective. The budget programs expenditures for both the City and the Partnership. Future contracts and associated budgets should state in detail how expenses are to be allocated between the City and the Partnership, and provide guidance about activities each will support. The contract and budget should provide priorities for activities which can be curtailed, postponed, or modified if funding falls short.

In reviewing actual FY 1995/96 expenses, we found that past contracts have not clearly assigned expenses between the two programs. While the base salaries for the Director, Economic Development, and his administrative assistant are charged to the City program and base salaries for the Economic Development Manager (also known as Manager, Existing Businesses and Director, Airpark Center) and Manager, Airpark Center (also known as Coordinator, Airpark Center), are charged to the Partnership, we found expenses related to the Economic Development Manager and Manager, Airpark Center were charged to the City fund in FY 1995/96.

Past contracts for business attraction and retention contain an incentive for City funds to be spent prior to Partnership funds, in the absence of guidance, because CoC is to return City funds which are not spent. A review of budget to actual expenses indicates that, for FY 1995/96, CoC spent all of the City funds, but apparently did not spend all of the Partnership funds. Because we were not provided information regarding actual cash raised by the Partnership, we could not determine if this difference was the result of funding shortfalls, or decisions not to spend money that was collected on budgeted items.

Future contract budgets should document agreement between parties about what activities will be postponed or scaled back. Without a contract requirement that CoC or the Partnership ensure that all funds needed for activities outlined in the scope of work are actually available, activities may not get done. We noted during the audit that in FY 1995/96, Partnership cash was budgeted for \$299,500, while the actual expenditures totaled \$218,700. A review of the proposed activities listed on the budget indicated that some attraction and retention activities were not done. The budget indicated that direct expenses of attraction, such as trade shows or marketing, and retention expenses, such as meetings or receptions, would be the responsibility of the Partnership. The Insert below shows the budgeted and actual expenditures for those items.

FY 1995/96 Budgeted And Actual Expenditures
Business Attraction And Retention Program

	City Contract Budget	City Contract Actual	Partnership Budget	Partnership Actual
Program/Committee	\$20,500	\$26,632	\$40,000	\$17,302
Attraction	\$80,073	\$79,369	\$33,546	\$ 1,725

SOURCE: CoC contract and general ledger

Defining The City's Relationship With The Partnership. As mentioned earlier, one of the benefits of the arrangement between the City and CoC is CoC's ability to work with the business community to raise funds for the economic development program. For the business attraction program, fund-raising is accomplished through the Scottsdale Partnership. Funds that are anticipated to be raised through membership investment in the Partnership are shown on budgets submitted for approval with the contract.

Future contracts should require that CoC provide information to the City about how successful fund raising actually was in fulfillment of matching requirements. Although the Contract Administrator stated that Scottsdale Partnership participation was intended to be matching private sector funds to fully accomplish the contract's scope of work, past contract language is silent in this regard. The initial strategy adopted in 1984 called for private sector funding "at least equal to the City's annual investment." Future contracts also should require information regarding actual Partnership expenditures under the program to be submitted, and CoC should be required to submit audited financial statements for this program. We also found that leads generated from CoC's membership in the Greater

Phoenix Economic Council (paid with City funds) are restricted to Partnership members. Future contracts should document approval by City Council of this type of restriction.

Assessing C/T Contract Funds. The C/T contract differs from the business attraction and retention contract in that all funds are programmed along with City funds. This precludes any discussion of individual fund expenditures, but opens concerns about how the revenue expected from other sources is determined. The level of funding from other participants in the program has begun to be evaluated, although according to City staff, the Tourism Development Commission and CoC have not yet taken definitive action on the issues. Funding issues include allocation of membership dues from hospitality industry members, valuation and reporting of in-kind goods and services, and the potential for funds from non-Scottsdale hotels served by the program.

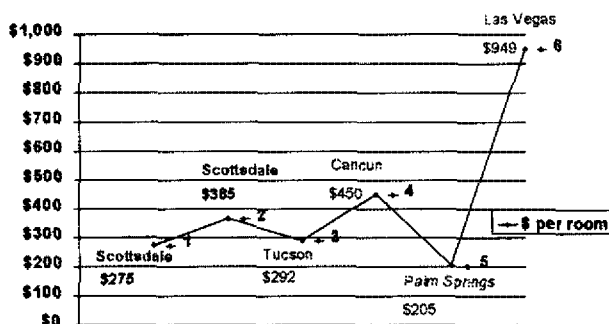
The program receives no funding from the clients outside of Scottsdale and Paradise Valley limits, even though CoC provides leads to these clients. None of the CoC membership dues, either from Scottsdale-located businesses or others, are allocated to the C/T program. Dues are retained in the CoC general fund. We were unable to determine what portion of the FY 1995/96 \$664,000 membership income resulted from hotel and resort members. The 1996 International Association of Convention and Visitor Bureaus (CVB) Foundation Financial Survey reported that for an organization of the CoC's size (\$2 to \$5 million budget), 67 percent report receiving membership dues. The report stated that "For CVBs that collect them, membership dues are typically one of the leading sources of private funds." According to the CoC Executive Director, CoC membership dues from hotels and resorts is not substantial.

There are 54 hotels and resorts participating in the Scottsdale/Paradise Valley market area served by CoC with funds provided by the City. Of these, 16 do not contribute to the bed tax revenue used to fund the program because they are not within Scottsdale's taxing jurisdiction. Of those 16, 9 have funding contributed from Paradise Valley.

Comparing the number of rooms to the total contributed shows that Scottsdale-based clients, via the bed tax, contribute twice the amount per room that Paradise Valley clients contribute. (Phoenix and Carefree hotels do not contribute funds.) In FY 1995/96, City support, including the base contract, incentive bonus, and event promotion, was \$385 each for 5,515 rooms, while Paradise Valley funds were \$186 for each hotel room in the Town (2,151 rooms). By FY 1997/98, per room City support for Scottsdale hotels had risen to \$453 per room.

The chart below shows per room promotion dollars in 1995, based upon data presented in the FY 1995/96 contract program of work. We modified the chart to include an additional per room expenditure data point. The first represents dollars per room (\$275) for all rooms in the Scottsdale/Paradise Valley market area, from the contract. The second represents City promotion dollars per room (\$385) for only hotels which contribute Scottsdale bed tax revenue.

Per Room Promotion Expenditures



Note: Promotion funds for Point 2 (\$2,125,384) includes base contract, incentive bonus, and event promotion, as set out in the Code.

SOURCE: CoC FY 1995 Program of Work (Exhibit B to the contract) and audit analysis

According to CoC and City staff, the program benefits from non-revenue contributing clients through cooperative advertising and other in-kind services. These benefits are not tracked and reported.

Documenting The Agreement Related To The CoC Building. Funds from a City bed tax fund other than promotion also flow into the CoC/C/T contract. We found that, through the use of tourism capital project money, tourism funds are paying the entire cost for the CoC building. This funding arrangement, while included as a separate line item in the C/T contract budget, has not been adequately documented. According to the Contract Administrator, a former city manager verbally agreed that the City would contribute the equivalent of the CoC facility mortgage cost for a 20-year period as a negotiation point to free up the Little Red Schoolhouse, which

was occupied by CoC. Past contracts have not documented the length of the agreement, or the disposal of the building should CoC choose to sell it or to stop occupying it. According to the Contract Administrator, he has asked that the issue of the building agreement be separately evaluated by the City's Facilities and Real Property team.

Additionally, we concluded that the use of these funds to pay for CoC workspace does not meet the definition of "visitor-related public projects" provided by Code provisions regarding tourism funds for capital projects. The CoC building is not a publicly-owned infrastructure, and the specific use of the funds will not result in increased visitors. Justification for the use of these funds for the building has not been sufficient.

**Contract Language Should Be
Revised To Strengthen Control
Over Expenditures**

Good contracts foster good partnerships by documenting clear understanding by all parties about expectations, and by enhancing belief that the relationship is fair, equitable, and profitable for all. Past CoC contracts incorporated language meant to control the use of funds, including a requirement that CoC submit annual audited financial statements. Future contracts should contain language to clarify what the City now expects in its contractual relationships, to ensure adequate internal control of assets:

- Future contracts should provide sufficient guidance so that CoC staff, the external auditor, or someone independent of the program, could impartially determine whether an expense was appropriately related to a program.
- While past contracts require submittal of an annual audit, future contracts should also require that the audit should be prepared to GAAP, and should discuss the entire CoC operations.
- Future contracts should provide adequate controls over subcontracts.

While the Contract Administrator has approached the relationship with CoC as though it were an intergovernmental agreement, our work did not support this approach. CoC is not a governmental entity, but rather a not-for-profit business. As such, CoC should be required to meet the same standards that the City requires of other businesses with which it contracts for services. By allowing administration of CoC contracts to disregard standard processes, the City limits its assurance that City assets are safeguarded.

***Determining Whether Or Not
Expenditures Are Related To
The Programs***

Even though the CoC contracts are lump-sum agreements, the City included provisions in both contracts to ensure that funds not spent on program activities were returned to the City: "Chamber agrees to reimburse City for any expenditures made with disbursed funds if any audit determines that the funds were spent for any purpose not included in [either] program description." An additional provision of the business attraction and retention contract requires the refund of money which is not spent, and we found that, in the early 1990s, funds were returned to the City.

Language in past contracts is not effective because we found that no other language in the contract or appendices describes the programs in sufficient detail to allow an evaluation of expenses for "purpose not included in program description." The program objectives in the business attraction and retention contract state that the primary goal of the CoC ED Division is to create additional employment opportunities, and the C/T contract objectives state that the primary goal of the C/T Division is to "enhance the economic base of Scottsdale through the tourism and convention industry." The objectives included in the contracts and in the work plans are broad enough to encompass almost any activity. Depending upon subjective interpretation, the relatedness of fund use could vary widely.

In order to clarify expectations about expenditures, future contracts with CoC should require that CoC maintain policies and procedures regarding the appropriate expenditure of funds. City guidelines could be used as a starting point. Written policy and procedures regarding appropriate expenditures will help guide CoC staff. For example, in our budget analysis, we noted that CoC charges the cost of the Director, Economic Development, car lease to the business attraction and retention contract, and the cost of the Director, C/T, car lease, to the C/T contract. This is approximately \$400 monthly for each program. In addition, the programs reimburse the Directors' fuel charges.

No written procedure restricts the vehicles' use to contract-related activities. The combined cost of these vehicles (lease and fuel) to the City contracts is more than \$12,000 annually. If this were a City program, any vehicle provided for use would be restricted for use only on City business. Additionally, if the City chose not to provide a car for City business, expenses would be capped through the use of a car allowance (which would preclude mileage reimbursement), or controlled by a requirement that trips have a documented business purpose prior to mileage reimbursement.

CoC does not have written guidance regarding the appropriate use of cellular phones or reimbursement for personal calls. The contracts are charged for cellular phone calls for the Directors as well as for other staff. The phone bill for the Director, Economic Development, averaged more than \$130 monthly in FY 1995/96. Cellular phone calls charged to the C/T contract averaged more than \$400 monthly. City procedures allow for the use of cellular phones, but staff are encouraged to use good judgment and manage the volume of calls. Staff are required to reimburse the City for personal calls.

Future contracts should also provide guidelines regarding the ownership of equipment. Provisions should require equipment to be used only for program activities, equipment should be returned should the program terminate, and joint purchase of equipment should be prohibited. In addition, ownership of intellectual property (including books, software, and audiovisual or compact disc information) should be covered by contractual guidelines. According to a 1994 Arizona State Auditor General report, Arizona Office of Tourism contracts contain the language that the Office has the "full right to reprint, reproduce, and/or use any products derived from the contractor's work...without payment of any royalties, commissions, fees, etc."

***Requirement For Audited
Financial Statements Should
Be Expanded***

While past contracts required CoC to submit audited financial statements, they have not required the statements to be prepared to GAAP or to include the operations of the CoC as a whole. CoC chooses to maintain accounting records on a modified cash basis, so that revenues and expenses are reported when received or paid, not when incurred, as required by GAAP. As a result, revenues and expenses may not be reported in the period when the activity actually occurred. This condition does not imply CoC financial control inadequacy, but as a result, financial reports are not as useful as they need to be in monitoring funds against program results and in preparing budgets. The cost of the annual audit is passed through to the programs, so that the City should specify the standards to be met. Additionally, because the Partnership has been defined as a separate entity from CoC, the financial statements do not reflect that organization's activity, although activities are budgeted within the City contract.

***Adequate Controls Over
Subcontracts Should Be
Provided***

One provision of the City standard professional services contract precludes the contractor from subcontracting without the consent of the City. Future CoC contracts should include the standard requirement. Almost half of

the available C/T contract funds expended during FY 1995/96 were for subcontracts. Except for the agreements with the Phoenix and Valley of the Sun Convention and Visitors Bureau, and the downtown trolley, none of these subcontracts was formally consented to by the City.

In addition to involving the City in the subcontract approval process, future contracts should redirect the award process. Presently, CoC subcontracts with whomever they choose, and CoC Board of Director policy is that the Chief Executive Officer may not make any purchase without giving an advantage to a CoC member. This process does not provide for competition that could open a market to all Scottsdale businesses that choose to bid. Additionally, because CoC members do not have to be Scottsdale businesses, the process runs counter to the goal of the contract, which is to create and retain Scottsdale businesses.

We found that CoC subcontract language may not be structured for optimum control over the expenditure of funds, an area which should be reviewed in future contract development. For example, one C/T subcontractor charges a commission which is always not less than 15 to 20 percent on services it further subcontracts. This contractor also bills at an hourly rate for non-commissioned services. In addition, the contractor separately bills for some items such as travel, long distance telephone, and shipping.

**The City Needs To
Develop Contracts
That Can Be
Actively Monitored,
And Then Monitor
Results**

The City expects that programs, whether they are done in-house or are contracted out, will show continual improvement through evaluating program results and correcting or innovating processes. In addition, measurement enhances the accountability of both the contractor and the City. Because of the importance of well-developed contract specifications, the City Procurement Code requires that specifications should be developed by City staff and "...emphasize functional or performance criteria."

Steps provided by the Code to govern specification development are:

- City staff should develop specifications.
- The Purchasing Director is required to approve all specifications.
- In exceptional cases, when specifications need to be developed by an outside organization, those individuals have to adhere to Code requirements and an exception has to be approved by the Purchasing Director, and documented.

- Any outside organization which has developed specifications for a City contract, cannot bid to get the resulting work.
- If there is an exception to any of the rules, the Purchasing Director and the City Attorney have to agree the exception is in the City's best interests.

SOURCE: City Procurement Code

In addition, program evaluation professional literature emphasizes that the program operator (City) must have tangible evidence that the local organization (CoC) contributed to claimed outcomes through monitoring of activities which can be measurement focal points. A research report by the Governmental Accounting Standards Board advises that data such as job creation or job skill level should be independently collected and verified. Examples of performance measures which should be used to evaluate results include the factors shown below.

Economic Development Measures

Inputs - staff and dollar resources devoted to each program activity.

Outputs - number of seminars hosted; number of people attending brown bags or town halls; number of relocation prospects hosted; number of industrial or commercial prospects visiting the area; hotel room nights booked.

Outcomes - of the hosted prospects, how many relocates occurred, and with what net economic effect; new jobs created, including saved jobs; skill level of new jobs created; number of unemployed workers obtaining new jobs; indirect employment created; number of new firms attracted; number of existing firms which expand in the area; new capital investment; economic impact of room nights booked.

Efficiency - public investment per job created.

SOURCE: Governmental Accounting Standards Board, Service Efforts and Accomplishments Research Report; Lazar Management Group, Evaluating Economic Development Programs; and audit analysis

The Governmental Accounting Standards Board's Service Efforts and Accomplishments Research Report recommended steps that should be taken to improve performance measurement of economic development programs. The report noted that it may take years for outcomes, such as increased numbers of jobs, ultimately to occur. Because of this, the

report suggested that intermediate outcomes, such as number of visits by firms interested in relocating, should be tracked. This requires well-kept program records.

Client surveys and state unemployment insurance data should be used as performance indicators. Longer-term outcome indicators should be improved, for enhanced reliability. Service quality indicators should be monitored. Data available from regional economic research agencies should be broken down for use at the local level.

Future CoC contracts should specify what documentation is to be kept and should require CoC to develop written documentation procedures. Procedures should address the issue of how counts should be made to avoid data errors such as double-counting. The contract and resulting CoC procedures should also require appropriate follow up so that CoC and City staff have information about activity effectiveness.

As discussed earlier, the process used to develop past CoC contracts and scopes of work does not adequately protect the City's interests. Both contracts insert CoC division work plans into the contracts in place of detailed specifications of service requirements that serve as a template for independent evaluation of delivery by an effective contract administrator. Adequate specification and evaluation of services is important for future contracts because the contracts require CoC to return funds which are used for activities not listed in the program descriptions.

We found that:

- Specification development and performance measures in past business attraction and retention contracts have not conformed to the Procurement Code, and measures have not been adequately defined.
- Past C/T contracts have not defined adequate performance measures for verifying delivery of services to the City, and the key measure which has been provided does not relate directly to CoC effectiveness.
- Because the contracts were considered to be intergovernmental agreements, the Contract Administrator was not required to develop and implement contract monitoring plans, or to maintain thorough contract documentation.

Instead of City staff developing specifications, and CoC developing a work plan, the CoC's Economic Development Division Business Plan is incorporated into the business attraction and retention contract. According to the contract, the evaluation of the program's outcomes is accomplished by comparing what the estimated annual program impact was, compared to an Economic Development Plan. The contract does not indicate what the Plan consists of, or how often it is to be updated.

According to City staff, the current contract's structure resulted from several factors. First, City staff believe that the cyclical nature of business retention and attraction makes it very difficult to require specific levels of performance. They believe that the City needs to invest in business attraction and retention annually and that activities should be tailored to the need at the time. Second, City staff rely on the CoC and the business community to be the drivers of the program. As such, development of the scope of work and annual objectives, and monitoring of results, is left to those stakeholders.

The evaluation process provided in the C/T contract states that "semi-annual review of the objectives, expenditure estimates, and estimated program impact of the Division Marketing Plan [should take place] against the Hospitality Marketing Strategy [according to the Tourism Development Coordinator, this is the Campbell-Dalton Strategy]." The process used by the Tourism Development Commission to assess the C/T contract does not provide adequate independent review of the scope of work against the strategy or against the previous year's planned work.

Monitoring and documentation related to the contracts has not been the primary focus of the responsible City staff. The Contract Administrator estimates that he devotes only 10 percent of his time to administering these contracts. His primary job responsibility is to develop destination attractions for the City.

**Performance Measures For The
Business Attraction And
Retention Contract**

The City's fiduciary role requires it to ensure that expenditure of funds achieves a certain level of accomplishment. Contracts which comply with the City Procurement Code are presumed to meet the standard. While the development of the business attraction/retention contract should have been required to conform to the Procurement Code, it has not been. Because of this, the work plan that is attached to that contract has not been adequate to serve as specifications or performance measures.

As discussed above, several professional organizations have suggested effective approaches for measurement of economic development activities that are not realized in the current program. For example, the contract scope of work lists the FY 1995/96 target for job creation, but does not define what types of jobs should be solicited. It lists the six main objectives of the program, but does not provide what would be considered an appropriate outcome from those objectives. Past contracts have not required any verification of results. Although CoC has been required to report the results of the business attraction and retention program through quarterly and annual performance reports, staff have not been required to independently verify relocating companies' statistics, nor document the methods used in tracking results.

Also, the budget submitted with the FY 1995/96 contract stated that a significant number of activities would be undertaken with in-kind participation from the Partnership. Future contracts should require activity tracking and set minimum levels of support from the Partnership, as well as require that CoC perform to the level of detail of the budget. In the absence of measures for program results, staff will continue to monitor program inputs. The FY 1995/96 budget stated that CoC would spend approximately \$33,500 in activities such as trade shows, special events, prospect servicing, media placement, and acquiring equipment for the attraction program. According to actual expenses, \$1,725 was spent.

**Performance Measures
For The C/T Contract**

CoC develops an annual contract program of work (the strategic marketing plan) which is used to allocate tourism funds and to evaluate results. We evaluated the performance measures called out in the C/T contract and program of work, and found that they were not adequate measures for verifying service delivery. The key performance indicator is not directly related to CoC performance. Further, except for increases in per room City bed tax revenue, the Tourism Development Commission has not required performance measures focusing on hotel rooms within the City, rather than within the Scottsdale/Paradise Valley market area.

Commission evaluation of return on the City's investment should consider that, for example, in FY 1995/96, City funds provided 85 percent of support, but Scottsdale properties represented 61 percent of the clientele (in 1995, 5,515 of a total 8,986 rooms). In addition, no process exists to evaluate how well the CoC program, by itself, influences program results. The Tourism Development Coordinator acknowledged that bed tax revenue changes, the key program performance indicator, are influenced by factors that are independent of the CoC program.

Future contracts should set negotiated performance targets for sales leads which are based upon acceptable methodology, and agreed to by the City and the Tourism Development Commission. Performance targets which have been set in the annual C/T work plans do not appear to be challenging. For example, using a mathematical forecasting model which compared total sales leads produced to funding (after testing that the data were meaningfully related), we calculated that total sales leads should be 1,604 for FY 1997/98. By contrast, the CoC draft contract for FY 1997/98 set the goal for a total of 400 group sales leads for convention and association groups. No group sales leads goal was set for tourism, although past reported leads were included in the data set for the forecast.

Past contracts have not defined measurement methodologies or terms. As a result, measures provided by CoC have not been required to facilitate valid year-to-year comparisons. Calculation or data collection methodologies are changed from year to year as C/T staff continue to enhance tracking methods and add sales leads and bookings which result from other divisions than the Convention Sales group. Changes in tracking and reporting methods should be explained to preclude misinterpretation of measures. For example, in March of 1995, CoC changed one of its economic impact multipliers, raising it to \$1,394 per stay on out-of town convention attendees only. The effect of the increase is shown in the Insert below, but CoC reports did not show prior and revised multipliers. In FY 1994/95, after the revision to the multiplier, bookings increased 6.5 percent, but economic impact increased 84.4 percent for the convention sales group.

Measuring Economic Impact

Fiscal Year	Group Nights Booked note 1	% Change	Economic Impact	% Change
92/93	38,540		\$12,571,650	
93/94	42,536	10.4%	\$14,082,698	12.0%
94/95	45,284	6.5%	\$25,967,432	84.4%
95/96	52,637	16.2%	\$28,089,390	8.2%

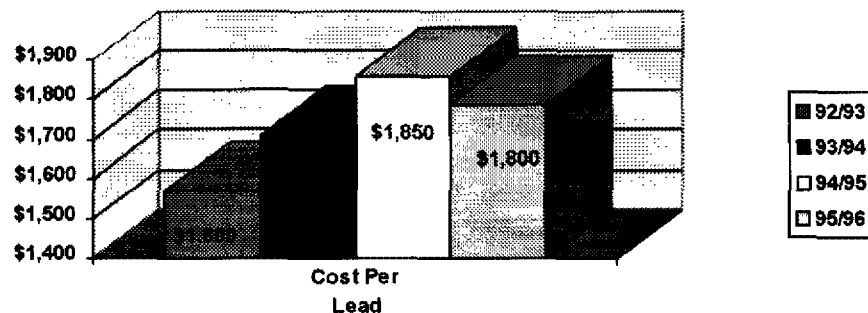
Note 1: Figures include only bookings reported by the C/T convention sales division for all hotel rooms within the Scottsdale/Paradise Valley market area.

SOURCE: CoC year-end performance reports and audit analysis

The key contract performance indicator is an increase in per room bed tax collected. CoC receives an incentive bonus if an increase occurs, but increase in per room bed tax revenue is not directly related to CoC performance. For FY 1995/96 and FY 1996/97, CoC did not receive bonuses, although indicators showed that they performed well. The numbers of rooms in the City increased at a rate greater than the bed taxes generated by the rooms, due to the lower rates at the new hotels, according to the Contract Administrator. This resulted in an insufficient bed tax revenue increase to trigger an incentive bonus for C/T, according to the Administrator.

During the audit, we assessed C/T program efficiency, to provide an example measure of program performance in addition to bed tax revenue changes. We plotted sales leads produced against the City contract amount to derive bed tax cost per lead, shown in the chart below. Our example may not represent accurate program performance. The promotion program apparently became less efficient each year except FY 1995/96, probably because C/T staff methodology does not yet track sales leads generated by CoC media advertising and public relations, but directly booked to hotels, although the costs of those services is reflected in the contract charges.

Promotion Program Efficiency



Note: Leads include convention, association, and domestic/international group sales. Funds include base contract and bonus funds, as shown in the contract documents.

SOURCE: CoC year-end performance reports, City contracts, and audit analysis

**Contract Monitoring Needs
To Be Strengthened**

To assure that the City is getting what it pays for at the agreed upon level and quality, the contract administrator has a duty to verify receipt of products or services in accordance with the contract. An essential component to successful contractor performance monitoring is the documentation of a monitoring plan. The plan serves as a guide for the administrator in performing his oversight duties. It addresses significant performance measures, and sets out the frequency and methodology of compliance reviews.

An adequate plan should include steps to assure that performance reports received by the City are reliable. Monitoring and corrective action results should be documented in the master contract files. Program records should be well-kept to evidence monitoring results, or to support corrective action requests. Administrators are offered technical support and training to ensure that they understand the importance of their monitoring and record-keeping responsibilities, and, because verification and documentation of contractor compliance are essential, City Administrative Guidelines require the administrator to develop a monitoring plan.

For future contracts, the Contract Administrator should develop and implement a monitoring plan. Although he has administered the contracts since 1987, and has attended the City's contract administrator training, the Contract Administrator has not been required to document a plan. The contracts were viewed as intergovernmental agreements. Because of this, oversight and record-keeping have not been thorough, and contractor corrective action was not initiated.

Contracts require CoC to submit quarterly and annual performance and financial reports, as well as copies of C/T promotional literature, communications, advertisements, and related materials prepared with contract funds. Because the contracts require these, the Administrator should verify compliance prior to approving payments, and document compliance. Reviews of files maintained by the Administrator indicated that he has not systematically evidenced his verification of CoC compliance to requirements. For example, while the C/T Quarterly and Annual Performance Measures reports were on time, not all evidenced Administrator review. For the business attraction and retention contract, while documentation evidenced Administrator review on most reports, the file was missing the performance report for the first quarter.

CoC also is required by contract to establish the EDEC with a specific membership, and we verified that the committee is established with the appropriate membership. No documentation regarding compliance was found in the Administrator's contract files.

We also noted that corrective action was not initiated on areas of CoC contract non-compliance to administrative requirements. For example, while we determined that CoC submitted few of the contractually required *monthly financial reports for FY 1995/96 by the contractual deadline*, there was no evidence that the Administrator followed up with CoC to address the timeliness. According to the CoC Finance Manager, the reports were late because the contract deadline did not match CoC business cycles.

The Administrator also did not take steps to require performance in a program required in the contract's scope of work. During the period under review, a one-to-one visitation program directed at retention of Scottsdale businesses, the Business Link program, had not fulfilled its potential because the Economic Development Division had not staffed the function. While the CoC Economic Development Director stated that his goal for the Link program was to contact 125 companies annually, in FY 1995/96, 24 companies actually were visited.

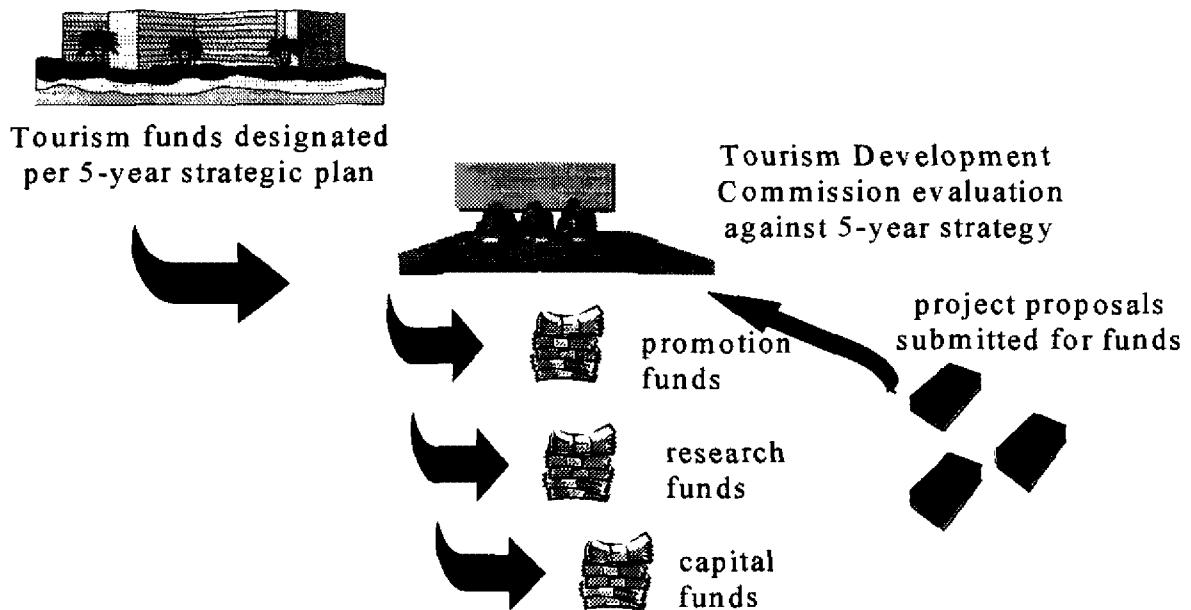
Further, the Administrator did not identify that provisions required by the contract had been omitted in CoC subcontracts, exposing the City unnecessarily to risk of asset waste or loss. A clause in CoC contracts requires all subcontractors to provide Workers' Compensation and Employer's Liability to at least the same extent as provided by CoC. We determined that only one of the FY 1995/96 subcontracts carried the Workers' Compensation contract clause. None of the subcontracts contained the required clause giving the City the right to audit books and records related to performance.

**The Process Used To Allocate
Tourism Funds Needs To Be
Re-evaluated**

Because projects funded through the City bed tax were envisioned to address very well-defined issues of high importance to the local hospitality industry, additional controls to ensure that the funds were spent appropriately were established. The industry was kept involved in the process through establishment of a commission that advised Council on whether or not suggested expenditures met the criteria. The Code that created the Tourism Development Commission also defined what types of programs can be supported with tourism funds, and set program objectives. According to the Code, organizations proposing projects would apply for funds to the Tourism Development Commission from the appropriate program allocation. The CoC contract for the C/T program is paid with funds allocated for tourism promotion.

This process is important for the C/T contract because the evaluation by the Tourism Development Commission of programs proposed for funding supplants the normal City contract award process. Because of this, the City needs to ensure that proper controls are in place. The chart below illustrates the process set out in City Code for tourism fund allocations.

Allocating Tourism Funds



SOURCE: SRC § 2-228

We found that:

- The process used by City staff to determine the allocation of tourism funds does not meet the criteria set in the Code.
- The process used by the Tourism Development Commission to recommend funding for the C/T contract does not adequately meet Code requirements concerning allocation of funds or evaluation of applications.

City Staff Process Should Be Changed City Code governing the use of tourism funds outlines the process which should be used to allocate the funds into promotion projects:

- (1) *Tourism funds shall be allocated among three (3) types of programs [to include promotion]:*

Convention/tourism promotion. Funds shall be allocated annually in accordance with the adopted strategic marketing plan... [to] include promotion of the community as a destination and the promotion of specific events... Funds not allocated to specific events shall be added to the convention/tourism promotional budget.

SOURCE: SRC §2-288

During our audit we found that:

- While the Code requires the Tourism Development Commission to evaluate the funding allocated to tourism promotion against an on-going five-year strategic plan, this is not the actual process used.
- The development of the destination promotion portion of the strategic marketing plan outlined in the Code has been relinquished to CoC.
- City staff have not maintained appropriate levels of documentation.

According to City staff, instead of following the Code, allocation has followed funding and distribution guidance set out in the 1988 Council Action Report which accompanied the tourism ordinance. This Council Action Report stated that the amount allocated to the tourism promotion program would be based on a budget submitted by CoC prior to the start of the FY. This budget was expected to increase over the prior year budget for inflation, increases in room stock, and incentive bonuses.

The effect of following the process outlined in the Report is that funding allocated for tourism promotion, which then becomes the amount provided for the C/T contract, has been determined based upon a formula established almost ten years ago rather than upon an analysis of need, as required by the Code.

If the Code related to the functions of the Tourism Development Commission were followed, the strategic plan would be developed, and

then funds would be allocated to achieve what was outlined. Tying the promotion program allocation directly to a process that ensures annual increases regardless of need does not provide for the potential for innovation, or address whether the outcomes achieved grow at the same rate that the funding does. There is a possibility that at some point, in the absence of evaluation by the Tourism Development Commission of service needs, costs, and results, the program will begin to experience diminishing returns for each tax dollar invested. The Insert below shows annual designated tourism promotion funds since the bed tax increase.

Tourism Promotion Funds

FY	Tourism \$\$ note 1	% Increase note 2
89/90	\$1,509,141.00	note 2
90/91	\$1,307,840.00	note 2
91/92	\$1,425,000.00	9%
92/93	\$1,454,112.00	2%
93/94	\$1,455,372.00	.1%
94/95	\$1,574,000.00	8%
95/96	\$1,803,879.00	15%
96/97	\$2,291,025.00	27%
97/98	\$2,845,453.00	24%

Note 1: Promotion funds do not include event promotion funds or CoC incentive bonus amounts, and these figures are also the amounts of annual CoC base contract funds.

Note 2: Funds for the first FY included a "catch up" amount for six months of the prior FY, and so were not included in the determination of annual changes.

SOURCE: City/CoC contracts and audit analysis

**City Needs To Address The
Strategic Marketing Plan**

During our audit, we determined that the development of the 5-year strategic marketing plan has been relinquished to CoC. Tourism Development Commission procedures do not provide for a process to evaluate either service needs or associated CoC costs prior to award. This process supports the belief that good economic development programs need a partnership between the City and the business community, but does not provide any assurance that the strategic marketing plan used to allocate funds is evaluated by individuals independent of programs. This independent evaluation is important for two reasons. First, good business practice suggests that controls should be in place to segregate

certain duties. By allowing the CoC to develop a plan which is then used as the basis for a contract award, this basic control is avoided. Assurance is limited that the plan addresses the City's overall need, and not just the needs of the CoC members who participate in the process.

Additionally, the strategic marketing plan was envisioned by the Code to determine the allocation of tourism funds into other program areas. Without an independent review of the plan and the proposed allocations, too much or too little may be allocated to the different programs.

**Allocation Decisions
Need To Be Documented**

In addition to using a method to allocate tourism funds that does not comply to Code, the Tourism Development Coordinator has not maintained all the needed documentation about how allocations actually were made. Additionally, the Coordinator has made unilateral interpretations about how tourism promotion and C/T contract funds are calculated. The Coordinator serves as Commission staff.

When we attempted to verify calculations using processes outlined by the Coordinator, we determined initial procedures provided in the 1988 Council Action Report apparently were not followed, and the Coordinator's justification for deviating from the procedures was not documented. The Council Action Report stated that "the base budget for the first year will be comprised of an amount equal to collections at a 1 percent rate during FY 88/89." The Coordinator's interpretation was that the base should be the FY 1988/89 CoC contract amount (\$819,097), rather than one-half the bed tax collected in FY 1988/89 (\$1,292,513), as this was his understanding of verbal discussions.

In addition, we found that the method used by the Coordinator was not consistent from year to year, or consistent with other source data maintained by the Economic Development Division or Financial Services. For example, we determined that "base contract" has been variously interpreted as comprising either only the base amount, the base amount plus the incentive bonus, or the base amount plus the event promotion funds. Also, for example, the number of hotel rooms may have been calculated as a fixed number on a given date, or by adding hotel rooms listed on building permits or in zoning cases.

**Application And Evaluation
Process Should Be
Strengthened**

An effective evaluation process needs to have certain elements. Before applications are evaluated, the criteria which are to be used must be decided upon. Measures have to be related to program operation and

within its sphere of influence. Qualitative information or statistics used to describe the desired results should be meaningful and consistent over time. If possible, data should be obtained and calculated in a fashion which permits comparison with similar organizations, for competitive analysis. After project completion, management should verify data reliability, and make choices about future program delivery based upon measurement of results against the targets which have been set.

The evaluation process used by the Tourism Development Commission should result in the same level of assurance of effective and efficient program delivery as is provided by the normal City contracting process. The evaluation criteria established by the Commission are important, because they should become performance measures for project providers. Careful tourism project application development should incorporate features of the evaluation process, and lay the foundation for measuring and reporting program efficiency and effectiveness using valid, reliable measures. For the tourism promotion program, the 5-year strategic plan which the City should develop serves as a sort of criteria because it should spell out the issues that projects must address. Each year, then, the annual program should have objectives which clearly are related to the strategy, and which are either measurable or observable, so that progress can be evaluated.

While the Code requires the Commission to evaluate applications for use of the funds against criteria, this process does not occur. The process currently used by the City and the Tourism Development Commission provides all of the funding for C/T promotion to the CoC. Other applications are not sought. Without a process to solicit applications, other projects that might qualify under the criteria are not evaluated.

The Code provides criteria which projects paid for with tourism funds must meet—attracting new visitors to Scottsdale, attracting visitors during non-peak periods, and meeting other criteria which the Commission decides is appropriate. Other than the criteria set out in the Code, criteria which can be used to evaluate projects have not been documented in Commission policies and procedures. In addition, the Code does not require the Commission to perform evaluations of completed projects to verify that stated objectives have been attained.

It was stressed in interviews with both City and CoC staff that the intent of the Council and the business community that supported the bed tax increase was that the CoC would be responsible for the C/T promotion activities set out in the Code. For this reason, there is no evaluation of

the appropriateness of the CoC request. If this is indeed the intent, a revised and strengthened evaluation process still could result in providing all of the funds to CoC. The evaluation of the application would be based upon a review of what CoC was proposing to do with the funds.

For example, in addition to a review of the cost of the activities, the process could also evaluate the types of activities proposed by CoC to be funded. Evaluation would identify activities which may not be directly related to tourism program outcomes. Functions such as administration of payments for special event promotions and the downtown shuttle service, have been included in the CoC scope of work without considering costs or the impact on CoC staff capability to deliver other contractually required services.

RECOMMENDATIONS

The Economic Development Director should:

1. Ensure that the CoC work plans and budgets are independently evaluated, and that elements which affect contract costs, such as overhead, staffing, and other fund sources, are negotiated and documented in the written agreements.
2. Ensure that the CoC contract language clarifies the relationship of the City economic development (business attraction and retention) contract to Scottsdale Partnership responsibilities, as well as clarifies any restrictions on public access to programs.
3. Ensure that the agreement between the City and CoC regarding the CoC building is documented, and that the use of tourism capital project funds is justified.
4. Ensure that the CoC contracts contain sufficient language regarding expenditure appropriateness, and include a contract requirement that CoC document policies and procedures controlling the appropriate use of City contract funds.
5. Ensure that a requirement that CoC conform its financial reports to generally accepted accounting principles and to accounting standards for not-for-profit organizations is incorporated into the contracts.
6. Ensure that City standard contract language regarding professional services subcontractors is incorporated into the contracts.

7. Ensure that the contract for business attraction and retention conforms to City requirements, including development of specifications and support for sole source contract award.
8. Ensure that the C/T contract scope of work includes adequate measures of program results with which to verify service delivery.
9. Ensure that the Contract Administrator complies with the Administrative Guideline for the function, except for approved variances, including the development and implementation of a documented contractor performance monitoring plan.
10. Ensure that the Contract Administrator documents the periodic verification of performance results and initiates corrective action on identified contractor performance noncompliance.
11. Ensure that the process of determining the funding of tourism promotion services conforms to the City's tax and tourism Codes, including City development of a 5-year strategic marketing plan and documentation of Tourism Development Commission allocation and evaluation procedures.
12. Develop written procedures for calculating promotion funds and subsequent distributions of funds, and document distributions. Documentation should be retained.

ABBREVIATED RESPONSES

The Economic Development Director responded as follows:

1. City staff will establish a professional review function for the economic development contract, which will among other tasks, clarify the conditions of the relationship with Scottsdale Partnership. By FY 1998/99, the Tourism Development Commission procedure for evaluating the C/T contract will be strengthened. Performance measures, cost-effectiveness, appropriate types and levels of overhead, and additional fund sources will be addressed.
2. The relationship between CoC, Scottsdale Partnership, and the City's economic development contract will be clarified by the FY 1999/00 contract.

3. The provision of and payments for workspace for the C/T staff will be addressed by the FY 1999/00 contract.
4. Future contract language has been prepared to address the specific overhead items which will be allowable, and the procedure for calculation of those amounts, which will be incorporated into the FY 1998/99 agreement.
5. Future contracts will include language to require conformance.
6. Subcontractor selection and compensation language has been developed for inclusion in the FY 1998/99 contract.
7. A solicitation process involving refined specifications and scope of work requirements will be developed with the assistance of the Purchasing Division staff.
8. For the FY 1998/99 contract, the current procedure followed by the Tourism Development Commission in evaluating the C/T contract will be strengthened, and an internal City staff committee will review all work plans and budgets.
9. Review procedures and relevant milestones for the economic development contract will be documented in a contract monitoring plan by December 31, 1998. The review process for the C/T contract will be documented in *Procedural Guidelines for the Tourism Development Commission* by June 30, 1999.
10. *Contract files will be reviewed per the contract monitoring plan, and corrective actions required will be documented.*
11. We do have all the components of a comprehensive strategic planning document, which, when combined with the Hospitality Visioning Project, will provide a focused investment program for the bed tax by December 31, 1998. City staff check proposed CoC programs against the marketing strategy for compliance, and report the results to the Tourism Development Commission and the City Council.
12. Procedures have been documented annually in a memorandum, and during City budget development, a 5-year projection of bed tax funds and promotion funds has been prepared. These documents will be incorporated into the *Procedural Guidelines* adopted by the Tourism Development Commission no later than June 30, 1999.

APPENDIX

Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce
City Auditor Report No. 9650

A

Objectives, Scope, and Method

In this performance audit, we evaluated the internal controls related to CoC contracts. Internal controls are an integral part of each system that management uses to regulate and guide operations. Control procedures are used to provide reasonable assurance that goals and objectives are met; resources are adequately safeguarded and efficiently used; reliable data are obtained, maintained, and fairly disclosed in reports; and laws and regulations are complied with.

Preliminary survey work for the audit commenced in June 1996. Fieldwork concluded in May 1997. Results of each contract evaluation were furnished to CoC and City management in briefings in January and April 1997, in order to provide timely information prior to annual contract negotiations. Audit work was performed in accordance with generally accepted government auditing standards, and as required by Article III Scottsdale Revised Code §2-117, *et seq.*, with one exception. The office currently does not comply with the requirement regarding outside peer review.

As a first step in assessing internal controls related to the City's CoC contracts, we assessed the program's risk exposure to determine the level of audit work required to provide reasonable assurance of internal control adequacy. Subsequent to the analysis of risk exposure, we obtained and reviewed relevant Scottsdale Revised Code, City Administrative Guidelines, annual contracts from FY 1989/90 through 1996/97, along with associated budgets, and outside expert studies. Although we reviewed contracts and reports from FY 1989/90 forward, we focused in our detailed reviews on FY 1995/96.

We obtained and reviewed economic development professional literature. We developed a checklist of City Code procurement requirements which pertain to sole source purchases of professional services, and compared the processes followed for the CoC contracts to requirements. We also obtained and reviewed all contractually required reports for FY 1995/96, to determine compliance.

We obtained and reviewed CoC general ledgers for FY 1995/96 for the Economic Development Division, the Convention/Tourism Division, CoC General Operations, and the Scottsdale Partnership. In the case of the Scottsdale Partnership, ledger entries regarding Partnership revenue were deleted by the CoC Executive Director prior to our receipt of the document.

We obtained and reviewed CoC documented internal control policies and procedures, including position descriptions; purchasing, ethics, and conflict of interest policies; and performance tracking procedures. Subsequently, we developed an internal control questionnaire, and interviewed CoC and City staff about the actual operation of controls, analyzed program results documentation where it existed, and performed substantive tests of expenditures and contract monitoring. We interviewed CoC managers about planning and controlling of their work, and reviewed sample forms and written procedures. We did not verify the accuracy of management reports regarding results.

We asked CoC and City staff to update the implementation status of the recommendations in both the economic development strategy study, the Boyle Report, and the Campbell-Dalton Hospitality Marketing Strategy. We obtained and analyzed sub-contracts managed by CoC C/T staff for conformance to contract requirements and to good business practice. We also estimated total payments to sub-contractors during FY 1995/96 to determine materiality to the contract as a whole.

We obtained from Financial Services available data regarding bed tax collections and revenue allocations since the bed tax increase was implemented in January 1989, in order to verify the accuracy of C/T contract funding calculations.

We obtained and reviewed documentation related to the City contract for Downtown Shuttle Service, and interviewed the contract administrator in the City Transportation Department. Evaluation of the FY 1995/96 City contract with CoC for special events promotion was intentionally limited because that program was administered solely by City economic development staff at the time of audit fieldwork. To determine whether or not CoC's records of special event promotion payments were accurate, and whether or not payments were received by promoters in compliance with contract requirements, we sent 11 confirmations to event promoters. All payments over \$10,000 as shown on the CoC general ledger were included. The total population of FY 1995/96 payments to event promoters was 24 payments totaling \$243,164.25. The audit sample included 11 payments totaling \$183,811.25, a coverage of 75.6 percent of dollar value.

APPENDIX

Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce
City Auditor Report No. 9650

B

Management Responses

1. Memorandum from the Director, Economic Development.
2. Memorandum from the Chief Executive Officer, Scottsdale Chamber of Commerce

Response From Economic Development Director



March 12, 1998

• "Most Livable City" U.S. Conference of Mayors •

To: Dick Bowers
City Manager

Thru: Dave Rodenque
Economic Development Director

From: Rich Weizel
Tourism Development Coordinator

CHAMBER OF COMMERCE CONTRACT COMPLIANCE AUDIT

We are in receipt of the draft copy of the report "Internal Controls related to City Contracts with the Scottsdale Chamber of Commerce (Report No. 9650)" as prepared by Janet Lowden. Staff agrees generally with the content of the recommendations outlined in the Action Plan. Our response to that report follows, addressing those recommendations in the order presented by the Auditor. This memorandum will document how appropriate corrective actions and improvements in process are being formulated and implemented.

For the past nine years staff has focused on the overall outcomes of the City/Chamber relationship which have been very positive. That relationship has been formalized in the City's Economic Development Action Plan and Hospitality Plan and emphasizes a full range of economic development activities. Further, these contracts reflect a long-understood "division of labor" between the City and Chamber of Commerce in economic development. The City certainly has the capability of conducting programs which deal with aspects of the development process, such as regulation and incentives. The City is far less qualified, however, to perform recruitment duties which focus on the identification, solicitation and nurturing of clients that may have an interest in visiting or investing in Scottsdale. Those functions the private sector (represented by the Chamber) clearly performs more effectively than the City. Further, marketing is not a typical activity of government, although the City as a whole benefits directly and indirectly from the conduct of a successful marketing effort on behalf of its economic sectors. As a result, the City has entered into contracts that are specifically marketing tasks. They embrace a service area that is long-term in nature but less than precise when tasks and outcomes are considered on a short-term basis.

The report recommends that the Economic Development contract be structured as a Professional Services agreement as defined in the City Procurement Code. That can be accomplished, but it should be noted that certain risks and inefficiencies will be introduced in the process. This function, in the opinion of staff, cannot be competitively bid inasmuch as no other organizations exist which reflect the broad private industry representation evidenced by the Chamber and the Scottsdale Partnership, have the specific experience in the economic development of Scottsdale or offer the degree of local presence in the community.

The report recommends that the existing Convention/Tourism (C/T) contract procedure carried out by staff and the Tourism Development Commission (TDC) should be retained, but significantly strengthened. That will be done, but again recognize that we already incorporate a broad cross-section of the Hospitality Industry in the review process which begins with the Chamber's Marketing Committee and evolves through the TDC. The addition of a City-managed independent review function could introduce additional costs, delays and potential conflict among industry partners.

Chamber of Commerce Contract Compliance Audit
March 12, 1998
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Recommendation 1: Ensure that the CofC work plans and budgets are independently evaluated, and that elements which affect contract costs, such as overhead, staffing and other fund sources, are negotiated and documented in the written agreements.

In order to meet the requirements of the City Procurement Code, City staff will establish a professional review function for the Economic Development contract, which will advise on all aspects of the scope of work, performance measures and final contract provisions. This entity will be independent of the Chamber committee structure, EDEC and City EDTF which have previously had a role in providing direction and in the evaluation of the ED agreement. Further, this entity will consider the details and conditions of the relationship between the City, Chamber and the Scottsdale Partnership, and recommend contract language to clarify those elements, as well as any acknowledged limit on public access to Chamber or Partnership records. It is noteworthy that this type of independent marketing plan review is becoming very common in the private sector.

The current procedure followed by the TDC in reviewing and evaluating the C/T contract will be strengthened as follows. First, the TDC will review the solicitation materials outlining the desired scope of work and performance measures prior to delivery to the Chamber. Second, the TDC will evaluate the proposed marketing program including performance levels proposed by the Chamber. Third, an outside consultant will assist with scope development and to provide commentary on the ability of the program to provide effective marketing and lead development functions in a cost-effective manner consistent with the objectives of the Hospitality Development Program of the City.

It should be noted that in the past, Financial Services has been consulted regarding the determination of appropriate types and levels of overhead to be charged to both CofC contracts. That department will continue to be consulted on this topic, as part of an internal staff review of all Chamber work plans and budgets. All modifications noted above will be implemented in the FY98-99 contract cycle.

Regarding additional fund sources for the C/T contract, staff and the TDC has asked the Chamber for a report on alternate fund sources which are now being evaluated by a Chamber committee. Those recommendations will be considered and are likely to be recognized in future C/T agreements. This is expected to require up to 24 months to implement.

Recommendation 2: Ensure that the CofC contract language clarifies the relationship of the City economic development (business attraction and retention) contract to Scottsdale Partnership responsibilities, as well as clarifies any restrictions on public access to programs.

In the future, the City contract will spell out language consistent with the Adopted Economic Development Plan of the City which clarifies the relationship with the Chamber organization, including the Scottsdale Partnership. It will be made clear the City and Private sector are the partnering entities providing funding for an Economic Development program which is implemented by the Chamber of Commerce staff.

One option is a three-way contract involving all parties which identifies the City and Partnership as funding entities and the Chamber as the entity to implement a mutually agreed-to program. Another option would be an agreement strictly between the Chamber and City with no financial role of the Partnership. Resolution of this approach is expected by the FY99-00 contract cycle.

In addition, future agreements will acknowledge the separate issue of limits on public access to Chamber or Partnership records. That too, is expected to be in place by the FY99-00 contract cycle.

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Recommendation 3: *Ensure that the agreement between the City and CofC regarding the CofC building is documented, and that the use of tourism capital project funds is justified.*

The FY97-98 agreement reflects a review of current market conditions on space rental and current staffing levels of the C/T Division, resulting a slight reduction in workspace compensation to \$111,700.

Staff is renegotiating the provision of workspace for the C/T staff for future agreements. That element will be specifically laid out as a provision of the C/T agreement to be presented to the Mayor and City Council no later than the FY99-00 contract cycle. During the process, the TDC will be consulted regarding alternative fund sources for the workspace funds such as the General fund and Bed Tax Promotion funds as well as the currently used Bed Tax Infrastructure funds.

Recommendation 4: *Ensure that the CofC contracts contain sufficient language regarding expenditure appropriateness, and include a contract requirement that CofC document policies and procedures controlling the appropriate use of City contract funds.*

To date, the City's intent has been to allow overhead to be charged based on the respective Division's percentage of FTE of the Chamber's total. Actual practice was to use a percentage of total salaries rather than FTE as the basis, thus inflating the chargeable overhead.

Future contract language has been prepared to address the specific overhead items which will be allowable, and the procedure approved (% of FTE) for calculation of those amounts. That proposed language is shown and will be incorporated into the FY98-99 agreement. Financial Services will continue to be consulted in the determination of appropriate expenditures and maximum allowable overhead.

"Approved Overhead. Overhead items authorized as part of the Convention/Tourism budget shall be delineated in the annual budget, attached hereto as Exhibit A. In addition, the allocation of the overhead expenses identified in Exhibit A shall be based upon the percentage of the Convention/Tourism FTE to total FTE for all Divisions of the Chamber."

Recommendation 5: *Ensure that a requirement that CofC conform its financial reports to generally accepted accounting principles and to accounting standards for not-for-profit organizations is incorporated into the contracts.*

Future contracts will include proposed language to require conformance as noted. This is expected to be incorporated into the FY98-99 agreement.

"Accounting system. The Chamber will provide an annual financial statement prepared in accordance with general accepted accounting principals and the provisions of the Statement of Financial Accounting Standards No. 117 (Financial Statements of Not-for-Profit Organizations). That annual financial statement must be audited by an independent certified public accountant."

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Recommendation 6: Ensure that City standard contract language regarding professional services subcontractors is incorporated into the contracts.

Subcontractor selection and compensation language has been developed for inclusion in the FY98-99 contract cycle. It should be noted that according to the Purchasing Division staff no "standard contract language" exists and this proposed language is yet to be approved by the Purchasing Director.

"Professional Services. The Chamber and the City shall each be responsible for purchasing all professional services used in conjunction with their respective responsibilities under this Agreement. Qualification and selection of vendors by the Chamber shall be performed on a competitive basis consistent with City purchasing procedures and acceptable to the Contract Administrator. All contracts with subcontractors shall include the same indemnification and insurance language included in this agreement and shall be approved by the Contract Administrator."

Recommendation 7: Ensure that the contract for business attraction and retention conforms to City requirements, including development of specifications and support for sole source contract award.

A solicitation process involving refined specifications and scope of work requirements will be developed with the assistance of the Purchasing Division staff and an outside consultant. A preliminary step was incorporated in FY97-98, although not involving the Purchasing Director. Third party independent review of the scope and proposal will be incorporated into the FY98-99 contract cycle.

Recommendation 8: Ensure that the C/T contract scope of work includes adequate measures of program results with which to verify service delivery.

The current procedure followed by the TDC in reviewing and evaluating the C/T contract will be strengthened as follows. First, the TDC will review the solicitation materials outlining the desired scope of work and performance measures prior to delivery to the Chamber. Second, the TDC will evaluate the proposed marketing program including performance levels proposed by the Chamber. Third, an outside consultant will assist with scope development and to provide commentary on the ability of the program to provide effective marketing and lead development functions in a cost-effective manner consistent with the objectives of the Hospitality Development Program of the City.

Financial Services and other departments will be consulted on this topic, as part of an internal staff committee to review all Chamber work plans and budgets.

These measures will be incorporated into the FY98-99 contract cycle.

Recommendation 9: Ensure that the Contract Administrator complies with the Administrative Guideline for the function, except for approved variances, including the development and implementation of a documented contractor performance monitoring plan.

Staff has in the past relied on a rigorous and consistent review process for both contracts involving at least four citizen/industry review entities from the Chamber and City to ensure that activities are consistent with City interests and objectives.

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Procedures in the past for the Economic Development contract have relied on the EDEC and EDTF for review of the work program in the context of City interests and objectives. That will continue with additional attention to the development of a scope of work. Documentation will augment the existing staff reports which support the annual funding recommendations. Finally, those procedures and relevant milestones will be documented in a contract monitoring plan to be submitted to the City Manager by the end of the calendar year (December 31, 1998).

Regarding the C/T contract, the review process will be maintained but also more rigorously documented in Procedural Guidelines for the TDC. That documentation will be completed and reviewed by TDC no later than June 30, 1999.

Recommendation 10: Ensure that the Contract Administrator documents the periodic verification of performance results and initiates corrective action on identified contractor performance noncompliance.

Contract files will be reviewed according to a schedule of actions incorporated into the contract monitoring plan. Corrective action, previously delivered verbally to Division Directors, will be documented in written memoranda to the Chamber chief executive. Those actions will be accomplished in parallel with submission of the contract monitoring plan to be submitted to the City Manager by the end of the current calendar year (December 31, 1998).

Recommendation 11: Ensure that the process of determining the funding of tourism promotion services conforms to the City's tax and tourism codes, including City development of a 5-year strategic marketing plan and documentation of Tourism Development Commission allocation and evaluation procedures.

It should be noted that a "Hospitality Strategic Plan" is cited in the Code and supporting Council Action Report. That term typically includes components for Research, Marketing, Special Events and Attraction Infrastructure. While we don't have a single comprehensive strategic planning document, we in fact do have all the components, with the Research Task Force Report for Research; the Campbell Hospitality Marketing Strategies and Western Task Force Report for Promotion; the Special Event Task Force Report and Event Policies/Marketing Program for Special Events; and the ERA Destination Attraction Study and Western Task Force Report for Attraction Infrastructure. Collectively, those components comprise a strategic plan which is actually far more comprehensive and in-depth than most of our competitive destinations. Staff is now compiling those component reports into a single document which will be presented to TDC no later than June 30, 1998.

The Hospitality Visioning Project is underway which will provide a long-term strategic vision for the industry. Along with the components noted above, the project relies on the same socio-economic and geographic target markets, so the end result of a focused investment program for the Bed Tax is achieved. That Visioning report is expected to be completed and reviewed by the TDC no later than December 31, 1998.

Finally, every year the staff reports accompanying the contracts explain to the TDC and Council that the proposed Chamber Program is checked against the Campbell Hospitality Marketing Strategy for compliance. Those staff reports will continue.

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Recommendation 12: *Develop written procedures for calculating promotion funds and subsequent distribution of funds, and document distributions. Documentation should be retained.*

Procedures have been documented annually through a memorandum to the Chamber Division Director which notes the authority (Code and Council Action Report); the procedure; and the recommended funds for the current and upcoming fiscal year. At the same time, during City budget development, staff forwards a five year consensus projection of total Bed Tax funds and a similar projection of likely promotion funds to the Budget Director. Those documents will now be referenced and incorporated into the Procedural Guidelines adopted by the TDC along with the five year projection of funds and expenditures. That documentation will be completed and reviewed by TDC no later than June 30, 1999.

Summary

The foregoing report responds to the appropriate areas of the Chamber contract audit with specific administrative actions. Additional actions identified for the upcoming contract negotiation are achievable, but will need senior management and Mayor and Council support as the negotiation process proceeds. The rationale for those actions identified in the Audit Report should help staff in those negotiations, although many will require a protracted multi-year schedule to accomplish.

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Response From Scottsdale Chamber Of Commerce Chief Executive Officer



TO: Cheryl Barcala, Auditor
City of Scottsdale

FROM: Philip L. Carlson, Chief Executive Officer **PLC**
Scottsdale Chamber of Commerce

RE: INTERNAL CONTROLS TO CITY CONTRACTS
WITH THE SCOTTSDALE CHAMBER OF COMMERCE (REPORT NO. 9650)

DATE: March 13, 1998

We appreciate your invitation to review and comment on the draft of the referenced report. It has been reviewed by staff responsible for executing the Convention/Tourism and Economic Development programs and by the Audit Committee of our Board of Directors.

In our letter to the City Manager requesting this audit we stated:

"It is always our intent to perform the work for which you have contracted with with us in compliance with the contract and within standards acceptable in the industry and the City of Scottsdale. Let us do whatever is necessary to insure that this is the case."

Obviously, we are pleased with your findings:

"The existing internal controls over C of C expenditure and administration provide reasonable assurance that contract requirements were met. The programs have been delivering services that comply with all major contracts requirements and the local economy has benefited from the efforts."

With a view to sustaining the future of the "successful, long-standing, and problem-free" partnership between the City and the C of C, you have directed twelve recommendations to the City's Economic Development Director to strengthen the contracts and thus the partnership and the success of results.

We have had the opportunity to work with the Director to begin to work through a process that meets City objectives and continues an effective program. We are in concurrence with the Director's response to the audit. Like in any long-standing business relationship, refinements build better relationships.

City Manager Dick Bowers and I are committed to developing the details of future contracts in light of the recommendations.

PLC/ln

